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 City of Stockton

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 9 UNITED STATES BANKRUPTCY COURT
 10 EASTERN DISTRICT OF CALIFORNIA
 11 SACRAMENTO DIVISION

12
 13 In re:
 14 CITY OF STOCKTON, CALIFORNIA,
 15 Debtor.

Case No. 2012-32118
 D.C. No. OHS-7
 Chapter 9

16 **CITY OF STOCKTON'S MOTION**
 17 **UNDER BANKRUPTCY RULE 9019**
 18 **FOR APPROVAL OF ITS**
 19 **SETTLEMENT WITH AMBAC**
 20 **ASSURANCE CORPORATION**

Date: April 2, 2013
 Time: 9:30 a.m.
 Dept: C, Courtroom 35
 Judge: Hon. Christopher Klein

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1 The City of Stockton, California (the “City”) hereby moves the Court pursuant to
2 Rule 9019 of the Federal Rules of Bankruptcy Procedure (the “Bankruptcy Rules”) for an order
3 approving the Stipulation and Settlement Agreement (the “Settlement Agreement”),¹ a copy of
4 which is attached to the Declaration of Robert Deis filed contemporaneously herewith. This
5 motion, as well as proposed findings of fact and conclusions of law and a proposed order, are
6 supported by the Declaration of Lucinda Hruska-Claeys also filed contemporaneously herewith.
7 The City consents to this Court’s determination of this motion.

8 The parties to the Settlement Agreement are the City, Ambac Assurance
9 Corporation (“Ambac” or the “Insurer”), Stockton Public Financing Authority (the “Authority”),
10 and Wells Fargo Bank National Association, as Indenture Trustee (of those certain City of
11 Stockton Certificates of Participation, (Redevelopment Housing Projects) Series 2003A and City
12 of Stockton Certificates of Participation, (Redevelopment Housing Projects) Taxable Series
13 2003B (the “Certificates”)² (the “Trustee” and collectively with the City, Ambac and the
14 Authority, the “Parties”). As explained herein, the Settlement Agreement encompasses a
15 settlement and resolution of certain issues and disputes between the Parties, and avoids the risks
16 and costs associated with litigation of such potential disputes. The Parties contend that the terms
17 of the Settlement Agreement are fair and equitable, and are in the best interests of the City and its
18 creditors, including the Insurer and Certificate holders. Accordingly, the City requests that this
19 Court approve the compromises embodied in the Settlement Agreement.

20 **I. FACTS**

21 **A. The Transaction and Obligations Insured by Ambac**

22 Ambac provided a financial guaranty policy (the “Insurance Policy”) insuring the
23 Certificates issued by the Authority to fund affordable housing projects in the City. The
24 Certificates represent interests in lease payments made by the City for the use and occupancy of
25 certain fire and police stations as well as a library. These buildings were leased by the City to the
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27 ¹ Capitalized terms used herein but not otherwise defined shall have the meanings ascribed to them in the Settlement Agreement.

28 ² Nothing herein is intended to bind the Trustee or any holders of the Certificates in any capacity other than as Trustee defined herein or as holder of the Certificates as defined herein.

1 Authority and then leased back to the City pursuant to a Lease Agreement dated as of June 1,
2 2003 (the "Lease").

3 The Certificates are obligations of the Authority (Series 2003A in the original
4 amount of \$1,160,000 and Series 2003B in the original amount of \$12,140,000), payable from
5 and secured by the revenues and receipts derived by the Authority from the Lease. The
6 Authority assigned its interest under the Lease to the Trustee pursuant to an Assignment
7 Agreement dated as of June 1, 2003 (the "Assignment Agreement"). Thus, the City's payments
8 under the Lease are paid directly to the Trustee for the benefit of the holders of the Certificates
9 and the Certificates are a general fund obligation of the City.

10 **B. The City's Chapter 9 Filing and its Default**

11 On June 28, 2012, the City filed the voluntary petition initiating this case (the
12 "Bankruptcy Case") under chapter 9 of title 11 of the United States Code (the "Bankruptcy
13 Code").

14 The City is in default under the Lease pursuant to Sections 8.1(b) and (d) of the
15 Lease. Pursuant to Section 12.09 of the Trust Agreement, so long as the Insurer is not in default
16 under its Insurance Policy, the Insurer shall control and direct the enforcement of all rights and
17 remedies granted to the owners of the Certificates and the Trustee under the Trust Agreement and
18 pursuant to Section 13.13 of the Trust Agreement, following an Event of Default, the Insurer shall
19 be deemed the owner of all Certificates for certain purposes under Trust Agreement.

20 **C. Ambac's Payments Under the Insurance Policy and Negotiation of the**
21 **Settlement Agreement**

22 Ambac expects that claims will be presented to and paid by it under the Insurance
23 Policy and those claims will be timely paid by the Insurer and as a result, holders of the
24 Certificates will receive their full contractual principal and interest when due. Because of the
25 payments by the Insurer, the Insurer will have subrogation claims against the City on behalf of
26 such holders and, as a result, the Insurer is a creditor in this case. In light of the foregoing, the
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1 Parties, including the Trustee at the direction of Ambac,³ entered into the Settlement Agreement
 2 which, among other things, restructures the City's obligations under the Certificates and provides
 3 additional liquidity for the City. Approval of the Settlement Agreement by the Court, and entry
 4 of the proposed findings of fact and conclusions of law and of the order attached hereto
 5 collectively as Exhibit A is a condition to the effectiveness of the Settlement Agreement.
 6 Accordingly, the City makes this motion seeking such approval.

7 **II. TERMS OF THE PROPOSED SETTLEMENT**

8 The salient terms of the Settlement Agreement and Supplemental Trust Agreement
 9 are summarized below:⁴

- 10 a. Forbearance. Subject to the express provisions of the Settlement
 11 Agreement, the Insurer and the Trustee agree to forbear from exercising
 12 their rights and remedies under the Lease and Trust Agreement. The
 agreement to forbear is conditioned upon and subject to the following
 Conditions of Forbearance:
- 13 i. General Fund Payments. The City shall make General Fund
 14 Payments in an amount equal to the lesser of (A) the amounts set
 15 forth in the General Fund Payment Schedule, or (B) the amount
 16 equal to the difference between the stated principal and interest
 17 payments on the Certificates due on each Payment Date and the
 amount available to the City pursuant to Section 5.04, clauses 1 and
 2(d)(ii) of the Supplemental Trust Agreement and Section 2.7 of the
 Settlement Agreement to be applied to the payment of the
 Certificates.
- 18 ii. The General Fund Payments shall be paid by the City directly to the
 19 Trustee; provided that from and after the date on which the
 20 Certificate holders (other than Insurer) are paid in full, the General
 21 Fund Payments shall be paid by the City directly to the Insurer for
 its own account as reimbursement for amounts owing to the Insurer
 22 on account of the Ambac Payments and the payment of legal fees
 pursuant to Section 6.8 of the Settlement Agreement, together with
 interest thereon, pursuant to Section 2.8. At such time as all
 23 Certificates and Ambac Payments have been paid in full, no further
 General Fund Payments shall be payable.

24 ³ Ambac is not in default under the terms of the Insurance Policy. As such pursuant to Sections 12.09 and 13.13 of
 25 the Trust Agreement, it is entitled to direct the Trustee to enter into the Settlement Agreement and the Trustee is
 26 compelled to enter into the Settlement Agreement. Nothing in the Settlement Agreement shall in any way alter
 27 Ambac's obligation to the holders of the Certificates under the Insurance Policy, and as a result, the Certificate
 holders are anticipated to receive full and timely payment of all amounts due under the Certificates when due despite
 the terms of the settlement.

28 ⁴ This summary is presented for convenient reference by the Court and parties in interest, but is not intended as a
 complete or exhaustive description of all terms of the Settlement Agreement, which is the definitive and controlling
 document.

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- iii. Assignment of Reimbursement Agreement. As additional security for the payments by the Insurer pursuant to the Insurance Policy, as of the Effective Date, all of the City's rights, title and interest under the Reimbursement Agreement, including the right to the Housing Set-Aside Amounts shall be automatically pledged and collaterally assigned to the Trustee which Housing Set-Aside Amounts shall later be assigned to the Trustee in accordance with the terms of the Supplemental Trust Agreement.
- iv. Application of Housing Set-Aside Amounts. In accordance with the terms of the Supplemental Trust Agreement, the Housing Set-Aside Amounts shall be applied (A) from the Effective Date until the date all monies in the Reserve Fund as exists as of the Effective Date are exhausted to the scheduled payment of amounts due on all Certificates then due and payable; (B) after all monies in the Reserve Fund as of the Effective Date are exhausted pursuant to Section 2.7 of the Settlement Agreement in the following order and priority: (1) to the scheduled payment of all Certificates then due and payable an amount equal to 19.5% of such scheduled payment; (2) to the Insurer, to repay any payments made by the Insurer under the Insurance Policy to the registered owners of the Certificates, with interest as required by Section 2.8 of the Settlement Agreement; (3) to the Insurer and the Trustee, to repay any payments made by the Insurer for fees and expenses including attorney's fees and expenses of the Insurer and the Trustee, with interest as required by Section 6.8 of the Settlement Agreement; (4) on-parity dollar-for-dollar basis to (i) the Reserve Fund, the amount necessary to make the balance therein equal the Reserve Requirement, and (ii) the payment of the scheduled payment of all Certificates then due and payable as a credit to the City for General Fund Payment (as defined in the Settlement Agreement); and (5) to the City to reimburse the City for any General Fund Payments previously paid and to the extent the City has been fully reimbursed for all such General Fund Payments (with interest to the extent permitted by the Reimbursement Agreement), for deposit by the City to the Redevelopment Property Tax Trust Fund."
- v. Extension of Lease Term. As of the Effective Date, the City and Authority agree that the term of the Lease is extended until September 5, 2048 or such later date until all amounts owing to the Certificate holders and Insurer under the Settlement Agreement have been paid in full.
- b. Debt Service Reserve Fund. The Trustee agrees to apply monies in the Reserve Fund as exists as of the Effective Date to pay principal of and interest on the Certificates commencing with the Certificate Payment due on September 1, 2013 in the amount necessary to pay debt service on the Certificates minus amounts available from Housing Set-Aside Subaccount of the Lease Payment Fund established pursuant to the Supplemental Trust Agreement until the Reserve Fund is exhausted. Amounts so applied from the Reserve Fund shall be a credit against the General Fund Payments due from the City under the Settlement Agreement. Replenishment of the Reserve Fund to the Reserve Requirement will take place with excess Housing Set-Aside Amounts paid pursuant to the Reimbursement Agreement as set forth in the Supplemental Trust Agreement.

- 1 c. Successor Agency Sale Proceeds. The City shall cause the Successor
2 Agency to work with the Insurer to agree upon a list of all properties which
3 (i) will be sold by the Successor Agency, or (ii) to be transferred to the
4 Community Redevelopment Property Trust Fund of the Successor Agency
5 and sold pursuant to the long-range property management plan developed
6 and authorized in accordance with the applicable sections of the Health and
7 Safety Code. The City and the Insurer will, and the City shall cause the
8 Successor Agency to, use their best efforts to obtain written approval of the
9 long-range property management plan developed by the Successor Agency
10 and approved by the Insurer prior to submission which will provide, among
11 other things, that all of the proceeds from the sale of the properties be used
12 to satisfy outstanding obligations under the bonds of the Successor Agency
13 and Reimbursement Agreement in accordance with the existing priorities
14 under applicable law prior to any distribution of such proceeds to taxing
15 agencies under the Health and Safety Code. The City shall, and the City
16 shall cause the Successor Agency to, diligently pursue the sales of the
17 properties in accordance with applicable law and shall provide the Insurer
18 and the Trustee with a written monthly report of all progress and activity
19 taken in connection with such sales.
- 20 d. Plan Support Commitment. From and after the entry into the Settlement
21 Agreement, and provided that (i) the Bankruptcy Court has entered the
22 Approval Order, and (ii) the City has complied with its covenants and
23 obligations under the Settlement Agreement, the Insurer will support the
24 Plan and take such action as is reasonably necessary to support
25 confirmation and consummation of the Plan which provides for separate
26 classification of the claims of the Insurer and the Certificate holders with
27 respect to the Certificates into two classes, each class shall provide for all
28 claims of the Insurer and the Certificate holders to be satisfied through the
City's recognition and performance of its obligations under the Settlement
Agreement. The Insurer in its capacity as insurer and sole owner of all
Certificates pursuant to the Trust Agreement agrees to vote for such Plan.
Subject to the terms and conditions of the Settlement Agreement, the Plan
will affirm that the Lease, Trust Agreement, Site Lease and
Reimbursement Agreement shall be assumed and remain in full force and
effect.
- e. Reimbursement of Attorney's Fees. The City shall reimburse the Insurer
and the Trustee for the fees and expenses of the Insurer and Trustee,
including attorney's fees and expenses incurred in connection with the
Certificates and Bankruptcy Case (i) in relation to the Insurer, accrued
through the date of execution and delivery of this Agreement in the amount
of \$240,000, and (ii) in relation to the Insurer and Trustee accrued from the
date of the execution and delivery of the Settlement Agreement through the
effective date of the Plan (the "Outstanding Fees and Expenses") through
application of Housing Set-Aside Amounts paid pursuant to the
Reimbursement Agreement as set forth in section 5.04 of the Trust
Agreement. The Trustee and Insurer shall submit invoices to the City
relating to the Outstanding Fees and Expenses specified in (ii) herein on a
monthly basis. Interest will accrue on the Outstanding Fees and Expenses
at an interest rate of 8% compounded annually. The City and Authority
will be obligated to pay ongoing Trustee fees and expenses as required
under the Trust Agreement and Lease.

1 f. Approval and Authorization to enter into the Ancillary Documents.

2 i. Supplemental Trust Agreement. On the Effective Date, the City,
3 Authority and Trustee shall be authorized to and shall enter into the
4 Supplemental Trust Agreement.

4 ii. Site Lease Assignment Agreement. On the Effective Date, the
5 Authority and the Trustee shall be authorized to and shall enter into
6 the Site Lease Assignment Agreement and the City shall be
7 authorized to and shall acknowledge and consent thereto.

6 **III. THE PROPOSED COMPROMISE IS FAIR AND EQUITABLE AND IS IN THE**
7 **BEST INTERESTS OF THE CITY AND ITS CREDITORS, THE INSURER AND**
8 **THE CERTIFICATE HOLDERS**

8 **A. The Rule 9019 Standard**

9 The standard for approval of a compromise was addressed by the United States
10 Supreme Court in *Protective Committee for Independent Stockholders of TMT Trailer Ferry, Inc.*
11 *v. Anderson*, 390 U.S. 414, *reh'g denied*, 391 U.S. 909 (1986). There, the Supreme Court held
12 that compromises reached during the course of insolvency proceedings must be “fair and
13 reasonable.” 390 U.S. at 424. Significantly, the Court stated that “[b]asic to this process in every
14 instance, of course, is the need to compare the terms of the compromises with the likely rewards
15 of litigation.” *Id.*

16 The Court of Appeals for the Ninth Circuit has held that the determination of
17 whether a proposed settlement agreement meets the requisite standards of fairness, equity and
18 reasonableness, is a function of several factors: (a) the probability of success in litigation; (b) the
19 difficulties, if any, to be encountered in the matter of collection; (c) complexity of the litigation
20 involved, and the expense, inconvenience and delay necessarily attending it; and (d) the
21 paramount interest of creditors and a proper deference to their reasonable view. *See Martin v.*
22 *Kane (In re A&C Properties)*, 784 F.2d 1377, 1381 (9th Cir.); *cert. denied sub nom., Martin v.*
23 *Robinson*, 479 U.S. 854 (1986); *accord Woodson v. Fireman's Fund Insur. Co. (In re Woodson)*,
24 839 F.2d 610, 620 (9th Cir. 1988); *In re MGS Marketing*, 111 B.R. 264, 267 (B.A.P. 9th Cir.
25 1990). Each of these enumerated factors weighs in favor of approving the Settlement Agreement.

26 In ruling on a proposed compromise, however, the bankruptcy court should not
27 substitute its own judgment for that of the trustee or debtor in possession (or in a chapter 9 case,
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1 for that of the debtor). *See In re Carla Leather, Inc.*, 44 B.R. 457, 466 (Bankr. S.D.N.Y. 1984),
2 *aff'd*, 50 B.R. 765 (S.D.N.Y. 1985). Nor is the bankruptcy court required to determine whether
3 the settlement was the best that the movant could have obtained. *See In re W.T. Grant*, 699 F.2d
4 599, 608 (2d Cir. 1982), *cert. denied*, 464 U.S. 822 (1983). Rather, the court should “canvass the
5 issues and see whether the settlement ‘fall[s] below the lowest point in the range of
6 reasonableness.’” *Id.* at 608; *In re Bell & Bechwith*, 87 B.R. 472, 474 (N.D. Ohio 1987).

7 **B. The Settlement Agreement Meets the Standard for Approval Under**
8 **Bankruptcy Rule 9019**

9 The Settlement Agreement should be approved under the foregoing decisional
10 standards. The Settlement Agreement provides immediate liquidity for the City by permitting it
11 to deplete the Reserve Fund to pay principal of and interest on the Certificates in fiscal year 2013.
12 In addition to the use of the monies in the Reserve Fund in 2013, in fiscal year 2014, the City’s
13 General Fund obligations will be reduced by 70%. Moreover, the Settlement Agreement will
14 provide the City with additional long-term liquidity through the reduction of the City’s General
15 Fund obligations under the Lease by 19.5% beginning in fiscal year 2015 as outlined in Schedule
16 1 to the Settlement Agreement. The shortfall in payments by the City will be funded through the
17 application of Housing Set-Aside Amounts and the Ambac Payments such that holders of the
18 Certificates will receive their full contractual principal and interest on the Payment Dates and
19 holders of Certificates should therefore not be impacted. Finally, the Settlement Agreement
20 requires the Trustee and Insurer to forbear with respect to recovery of the shortfall in payments
21 due from the City for the benefit of the holders of the Certificates so long as the City is in
22 compliance with the terms of the Settlement Agreement. By significantly reducing the City’s
23 short-term obligations and providing a long-term discount on future obligations under the Trust
24 Agreement, the Settlement Agreement provides the City with the ability to pay other current
25 obligations and restructure its debts.

26 As applied here, the *A&C Properties* factors support this Court’s approval of the
27 Settlement Agreement as in the best interest of the City and its creditors. The Settlement
28 Agreement should be approved for the following reasons:

1 **Probability of Success.** The parties believe that there are sound legal arguments
2 with respect to the disputes between the City, the Trustee and the Insurer, if litigated. Substantial
3 time and resources would be consumed in pursuing such litigation. Under the circumstances, the
4 proposed compromise is fair and reasonable, as it approximates the City's good-faith estimation
5 of risks associated with their respective claims and defenses.

6 **Complexity of Litigation; Related Expense.** The Settlement Agreement
7 consensually resolves the complex disputes between the Parties, thereby avoiding the dissipation
8 of the City's resources in litigation. For example, one of the many disputes between the Parties
9 relates to whether the debt underlying the Certificates is a true lease or disguised financing
10 transaction. If the transaction is categorized as a financing, further issues relating to the proper
11 mechanism for valuation of the underlying collateral would be ripe for litigation. Litigation of
12 these disputes, in addition to the numerous other issues surrounding the Certificates, would
13 require not only the usual costs and delay attendant to litigation, but may entail expense beyond
14 any benefit that could be achieved. Thus, the Settlement Agreement is not only reasonable but an
15 essential alternative to future litigation.

16 **Interest of Creditors.** The Settlement Agreement reduces the City's potential and
17 immediate liabilities to the Insurer and holders of the Certificates. Accordingly, creditors will
18 benefit from immediate access to such funds. Further as the Settlement Agreement does not in
19 any way modify Ambac's obligations under the Insurance Policy to make full and timely
20 payments on the Certificates when due according to the terms of the Insurance Policy, the rights
21 of holders of the Certificates should not be impacted by the Settlement Agreement.

22 Having analyzed and weighed the above factors, the City believes the Settlement
23 Agreement – achieved after good faith, arm's length negotiations – is fair and reasonable, and in
24 the best interest of creditors including the Certificate holders.

25 **Notice.** In addition to the notice provided by the Court's electronic filing system,
26 notice of this motion as well as this motion itself has been provided to those persons on the
27 special notice list. Additionally, the Trustee has provided notice of this motion by means the
28 Notice of Settlement, Procedures Concerning Court Approval of Settlement and Related

Exhibit A

1 **5**

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8 Attorneys for Debtor
City of Stockton
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10 UNITED STATES BANKRUPTCY COURT
11 EASTERN DISTRICT OF CALIFORNIA
12 SACRAMENTO DIVISION

13 In re:
14 CITY OF STOCKTON, CALIFORNIA,
15 Debtor.

Case No. 12-32118 (CMK)

DC No. OHS-4

Chapter 9

**FINDINGS OF FACT AND CONCLUSIONS OF
LAW WITH RESPECT TO THE CITY OF
STOCKTON'S MOTION FOR ORDER
APPROVING COMPROMISE PURSUANT TO
FEDERAL RULE OF BANKRUPTCY
PROCEDURE 9019**

Date: April 2, 2013
Time: 9:30 A.M.
Dept: C, Courtroom 35
Judge: Hon. Christopher M. Klein

23 Upon the motion (the "Motion")¹ of the City of Stockton (the "Debtor" or "City"), seeking
24 entry of an order (the "Approval Order"), pursuant to Rule 9019 of the Federal Rules of
25 Bankruptcy Procedure, approving the Stipulation and Settlement Agreement by and among the
26 City, the Stockton Public Finance Authority (the "Authority"), Ambac Assurance Corporation (the
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28 ¹ Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Stipulation and Settlement Agreement (as defined herein).

1 “Insurer”), Wells Fargo Bank, National Association (the “Trustee”), attached hereto as Exhibit A
2 (the “Settlement Agreement”); and the Court having conducted a hearing on the Motion on April
3 2, 2013 (the “Hearing”) at which time all interested parties were offered an opportunity to be heard
4 with respect to the Motion; and upon full consideration of the Motion and after due deliberation
5 thereon;

6 **IT IS HEREBY FOUND AND DETERMINED THAT:²**

7 1. This Court has jurisdiction over the Motion and the relief requested therein pursuant
8 to 28 U.S.C. §§ 157 and 1334, and this matter is a core proceeding pursuant to 28 U.S.C. § 157.
9 Venue for the Motion is proper in this Court.

10 2. The form and manner in which notice of the Motion, Settlement Agreement, and
11 the Hearing was provided to all parties in interest entitled to such notice, including the holders of
12 Certificates (each, a “Certificate Holder”) as set forth herein, was reasonably calculated to
13 provide all such interested parties with adequate, appropriate, reasonable and sufficient notice,
14 including all deadlines associated therewith and the provisions of this Approval Order, and is for
15 all purposes approved. The City’s notice of the Motion and Hearing to approve the Settlement
16 Agreement was made to all Certificate Holders by posting that certain Notice of Settlement and
17 Procedures Concerning Court Approval of Settlement and Related Deadlines through the
18 Depository Trust Company, Bloomberg and with the Electronic Municipal Market Access
19 service, as maintained by the Municipal Securities Rulemaking Board and found at
20 <http://www.emma.msrb.org/>, which is an official source for municipal disclosure and market
21 data and is deemed sufficient notice of the terms and conditions of the Settlement Agreement and
22 the provisions of this Approval Order to Certificate Holders and provided Certificate Holders
23 notice and an opportunity to object to the Motion and be heard at any Hearing on the Motion,
24 and no other or further notice is required to such Certificate Holders.

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27 ² The findings of fact and the conclusions of law stated herein shall constitute this Court’s findings of fact and
28 conclusions of law pursuant to Bankruptcy Rule 7052, made applicable pursuant to this proceeding pursuant to
Bankruptcy Rule 9014. To the extent any finding of fact later shall be determined to be a conclusion of law, it shall be
so deemed, and to the extent any conclusion of law later shall be determined to be a finding of fact, it shall so be
deemed.

1 3. The Trustee has due authority to enter into the Settlement Agreement for the benefit
2 of all Certificate Holders. The Insurer is not in default under its Insurance Policy with the
3 Trustee and has provided direction to the Trustee under the Trust Agreement to enter into the
4 Settlement Agreement, and thus, the Trustee is compelled to enter into the Settlement
5 Agreement.

6 4. The relief requested in the Motion and the compromises and settlement set forth in
7 the Settlement Agreement, by and among the Authority, the City, the Insurer, and the Trustee are
8 fair and reasonable to, and are in the best interest of, the Authority, the City and its creditors,
9 including the Insurer, Trustee, and the Certificate Holders.

10 5. The Trustee has acted consistent with its duties and responsibilities under, and entry
11 of this order does not violate, the terms of the Trust Agreement and has used the same degree of
12 care and skill in their exercise, as a prudent person would exercise or use under the
13 circumstances in the conduct of such person's own affairs.

14 6. All objections, if any, to the Motion or the relief requested therein that have not
15 been withdrawn, waived, or settled, and all reservations of rights included in any such
16 objections, are hereby overruled on the merits, with prejudice.

17 7. The Debtor is authorized and directed to execute and deliver, and is empowered to
18 perform under, consummate, and implement the Settlement Agreement, together with all
19 additional instruments and documents as are necessary to effectuate the Settlement Agreement,
20 including but not limited to the Supplemental Trust Agreement and the Site Lease Assignment
21 Agreement.

22 8. Each of the Authority, Insurer, and the Trustee is authorized to enter into the
23 Settlement Agreement and each are authorized to enter into such additional instruments and
24 documents as are necessary to effectuate the Settlement Agreement.

25 9. The Approval Order and the Settlement Agreement shall be binding on the Debtor,
26 the Authority, Insurer, the Trustee and all creditors of the Debtor, including the Certificate
27 Holders, and each of their respective successors and assigns.

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1 10. The Approval Order and the Settlement Agreement shall be binding on the City in
2 its capacity as Successor Agency to the Redevelopment Agency of the City of Stockton, and any
3 successors and assigns thereof.

4 11. The Approval Order and the Settlement Agreement shall be binding on the Trustee
5 and any successors and assigns thereof, solely in its capacity as a trustee with respect to the
6 Certificates, and not in any other capacity, including, but not limited to, its capacity as a holder
7 of any claim against the Debtor unrelated to the Trust Agreement, or as the trustee with respect
8 to any other certificates, bonds, warrants or claims related to the Debtor.

9 12. The Approval Order shall be binding on each Certificate Holder and any successors
10 and assigns thereof, solely in such certificate holders' capacity as a Certificate Holder and not in
11 any other capacity, including, but not limited to, its capacity as the holder of any other claim
12 against the Debtor unrelated to the Trust Agreement.

13 13. Without the need for any further action on the part of any Certificate Holder and for
14 the benefit of the Certificate Holders in order to insure the timely scheduled payment of debt
15 service on the Certificates, the Trustee is hereby granted the right and power to (a) execute any
16 assignment required by the Insurer in connection with any payments by the Insurer under the
17 Insurance Policy in accordance with the terms of the Trust Agreement, and (b) accept any
18 amendment to or replacement of the Insurance Policy necessary to insure the timely payment of
19 debt service on the Certificates.

20 14. The terms, conditions and provisions of the Settlement Agreement and the
21 Approval Order shall not be deemed to alter, amend or modify any of the Insurer's obligations to
22 the Trustee or the Certificate Holders under the Insurance Policy.

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15. This Court retains jurisdiction with respect to all matters arising from or related to the implementation of this Finding of Fact and/or the Settlement Agreement.

OHS753213144

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8 Attorneys for Debtor
City of Stockton

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10 UNITED STATES BANKRUPTCY COURT
11 EASTERN DISTRICT OF CALIFORNIA
12 SACRAMENTO DIVISION

13 In re:
14 CITY OF STOCKTON, CALIFORNIA,
15 Debtor.

Case No. 12-32118 (CMK)
DC No. OHS-4
Chapter 9

**ORDER GRANTING CITY OF STOCKTON'S
MOTION FOR ORDER APPROVING
COMPROMISE PURSUANT TO FEDERAL
RULE OF BANKRUPTCY PROCEDURE 9019**

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19 Date: April 2, 2013
20 Time: 9:30 A.M.
21 Dept: C, Courtroom 35
Judge: Hon. Christopher M. Klein

22 Upon the motion (the "Motion")¹ of the City of Stockton (the "Debtor" or "City"), seeking
23 entry of an order (this "Approval Order"), pursuant to Rule 9019 of the Federal Rules of
24 Bankruptcy Procedure, approving the Stipulation and Settlement Agreement by and among the
25 City, the Stockton Public Finance Authority (the "Authority"), Ambac Assurance Corporation (the
26 "Insurer"), Wells Fargo Bank, National Association (the "Trustee"), attached hereto as Exhibit A

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28 ¹ Capitalized terms used but not defined herein shall have the meaning ascribed to such terms in the Stipulation and Settlement Agreement (as defined herein).

1 (the "Settlement Agreement"); and the Court having conducted a hearing on the Motion on April
2 2, 2013 (the "Hearing"); and the Court having entered that its Findings of Fact and Conclusions of
3 Law with Respect to the City of Stockton's Motion for Order Approving Compromise Pursuant to
4 Federal Rule of Bankruptcy Procedure contemporaneously herewith; and upon full consideration
5 of the Motion and after due deliberation thereon;

6 **IT IS HEREBY ORDERED, ADJUDGED, AND DECREED THAT:**

- 7 1. The Motion is hereby granted in its entirety.
- 8 2. The Settlement Agreement is approved in its entirety.
- 9 3. Notwithstanding the possible applicability of Rules 6004(h), 6006, 7062, 9014 or
10 any other similar provision of the Federal Rules of Bankruptcy Procedure, this Approval Order and
11 its relevant terms shall not be stayed, but shall instead be immediately effective and enforceable
12 upon its entry.
- 13 4. This Court retains jurisdiction with respect to all matters arising from or related to
14 the implementation of this Order and/or the Settlement Agreement.

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