

43

1 WINSTON & STRAWN LLP
Lawrence A. Larose (admitted *pro hac vice*)
2 llarose@winston.com
200 Park Avenue
3 New York, NY 10166-4193
Telephone: (212) 294-6700
4 Facsimile: (212) 294-4700

5 WINSTON & STRAWN LLP
Matthew M. Walsh (SBN: 175004)
6 mwalsh@winston.com
333 S. Grand Avenue, 38th Floor
7 Los Angeles, CA 90071-1543
Telephone: (213) 615-1700
8 Facsimile: (213) 615-1750

9 Attorneys for Creditor
NATIONAL PUBLIC FINANCE
10 GUARANTEE CORPORATION

11
12 **UNITED STATES BANKRUPTCY COURT**
13 **EASTERN DISTRICT OF CALIFORNIA, SACRAMENTO DIVISION**

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

) Case No. 12-32118
) D.C. No. OHS-1
) Chapter 9

) **EXHIBITS A – H IN SUPPORT OF**
) **“DECLARATION OF MATTHEW**
) **M. WALSH IN SUPPORT OF**
) **NATIONAL PUBLIC FINANCE**
) **GUARANTEE CORPORATION’S**
) **MOTION *IN LIMINE* #2 TO**
) **EXCLUDE ANY EVIDENCE**
) **GENERATED POSTPETITION**
) **CONCERNING THE RATIONALE**
) **FOR THE CITY OF STOCKTON,**
) **CALIFORNIA’S DECISION NOT TO**
) **NEGOTIATE WITH OR TO SEEK**
) **TO IMPAIR THE CALIFORNIA**
) **PUBLIC EMPLOYEES’**
) **RETIREMENT SYSTEM PRIOR TO**
) **THE FILING OF THIS CHAPTER 9**
) **PETITION”**

) Date: March 20, 2013
) Time: 9:30 a.m.
) Dept: Courtroom 35
) Judge: Hon. Christopher M. Klein

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

Exhibit A True and correct excerpts from the transcript of the deposition of
Teresia A. Haase taken on November 14, 20123

Exhibit B True and correct excerpts from the transcript of the deposition of Laurie
Montes taken on November 1, 201211

Exhibit C True and correct excerpts from the transcript of the deposition of Ann
Goodrich taken on November 6, 201214

Exhibit D True and correct excerpts from the transcript of the deposition of Robert
Deis taken on November 28, 2012.....22

Exhibit E True and correct excerpts from the transcript of the deposition of Eric
Jones taken on November 7, 2012.25

Exhibit F True and correct copy of the Management Partners’ Follow-Up Notes
from August 8, 2012 Meeting with Ann Goodrich and Teresia Haase
and SDT Meeting.....30

Exhibit G True and correct copy of an Email from Andy Belknap to Teresia Haase
and Ann Goodrich, dated September 10, 2012, discussing an updated
version of the CalPERS Business Case Outline..37

Exhibit H True and correct copy of a Memorandum to Governor Jerry Brown and
other California state officials from City Manager Deis calling for state
reform of pension laws, dated August 15, 2012.39

EXHIBIT A

Teresia A. Haase

November 14, 2012

Sacramento, CA

Page 1

1 UNITED STATES BANKRUPTCY COURT
 2 EASTERN DISTRICT
 3 SACRAMENTO DIVISION

4 In re:
 5 CITY OF STOCKTON, CALIFORNIA, No. 12-32118
 6 Debtor. Chapter 9
 7 /

8
 9 Deposition of
 10 TERESIA A. HAASE
 11 Wednesday, November 14, 2012

12
 13
 14 Reported by:
 15 SANDRA BUNCH VANDER POL, RMR, CRR, CSR #3032
 16 Realtime Systems Administrator credentialed
 17 Fellow, Academy of Professional Reporters
 18 Job No. 39039

19
 20 -----

21
 22 ALDERSON REPORTING
 23 1-800-FOR-DEPO

24
 25

Alderson Reporting Company
 1-800-FOR-DEPO

Teresia A. Haase

November 14, 2012

Sacramento, CA

Page 82

1 Q. Do you recall whether it was your department
2 that asked Management Partners to do a PERS benefit
3 information comparison?

4 A. Do I recall? Yes.

5 Q. Was it your department that gave that
6 direction to Management Partners?

7 A. No.

8 Q. Do you know which department did?

9 A. I believe that came out of SDT discussions.

10 MR. RIDDELL: To the extent that you have
11 information that's a result of being engaged in any
12 conversations or communications relating to the SDT
13 in which counsel was present, I instruct the witness
14 not to answer on the basis of the attorney-client
15 privilege.

16 BY MR. NEAL:

17 Q. In terms of a time reference or parameter,
18 do you recall the first SDT meeting you attended?

19 A. No.

20 Q. Do you recall any meetings outside of the
21 SDT that you had with Management Partners regarding
22 their effort to do a PERS benefit information
23 comparison?

24 A. Yes.

25 Q. And what's the first meeting you recall?

Teresia A. Haase

November 14, 2012

Sacramento, CA

Page 83

1 A. The -- I believe it happened in the early
2 part of August.

3 Q. And that would be August of 2012?

4 A. Correct.

5 Q. And who was at that meeting?

6 A. Myself, Mr. Belknap, and Ann Goodrich, as I
7 recall.

8 Q. And what was discussed at that meeting as it
9 relates to the PERS benefit information comparison
10 sought from Management Partners?

11 A. We discussed what types of information might
12 be helpful in -- to gather for purposes of
13 understanding what the market was in terms of defined
14 benefit programs.

15 Q. I am going to show you what has been
16 premarked as Exhibit 154.

17 Ms. Haase, the court reporter has handed you
18 Exhibit 154. Please take the time to look this
19 document over.

20 (Witness reviewing document.)

21 A. Okay. I mean I didn't read it in detail.

22 Q. You mentioned a meeting in August of 2012.
23 First, let me ask you: Have you seen this document
24 before, Exhibit 154?

25 A. I have seen the first page. I don't recall

Teresia A. Haase

November 14, 2012

Sacramento, CA

Page 84

1 if the subsequent pages were attached to it when I
2 saw the first page. But I have seen all of this
3 information.

4 Q. As best you can recall, was this the first
5 meeting you had with Ms. Goodrich and Mr. Belknap
6 regarding the objective to make a business case for
7 remaining current and in good standing with CalPERS?

8 A. This was the first meeting I recall where
9 the purpose of which was to discuss the information
10 we may want to gather to help us understand what the
11 market was with respect to PERS or a PERS reciprocal
12 defined retirement benefit system.

13 Q. And how many meetings were there involving
14 you, Ms. Goodrich, and Mr. Belknap?

15 A. I don't recall.

16 Q. More than one?

17 A. There was at least one additional, but I
18 don't know if there were more than one additional.

19 Q. Other than this document, Exhibit 154, do
20 you know of any documents prepared by Management
21 Partners or anyone else with respect to the business
22 case referenced in Exhibit 154?

23 A. The only other document that I can recall is
24 the prior exhibit.

25 Q. And that prior exhibit, I believe you still

Teresia A. Haase

November 14, 2012

Sacramento, CA

Page 85

1 have it in front of you, is Exhibit 157?

2 A. Yes.

3 Q. It has a draft date of April 11, 2012. Do
4 you see that?

5 A. Yes.

6 Q. Do you know if that is the date that this
7 document was prepared?

8 A. I have no way of knowing that for sure. As
9 I -- as I said earlier, I don't know if this is the
10 specific version that I -- that I had seen, and I
11 don't recall when I first saw the version.

12 Q. Well, I'd like to show you Exhibit 165,
13 which I believe the court reporter has a copy of.

14 (Witness reviewing document.)

15 A. Did you want me to read it in its entirety?

16 Q. Maybe. Let me first ask you to identify it.
17 Have you seen this document before, that is
18 Exhibit 165, Draft 4/18/12" on Management Partners'
19 letterhead?

20 A. I don't recall seeing it, but I see it was
21 addressed to me.

22 Q. When I previously asked you whether
23 additional documents, other than Exhibit 154 were
24 prepared or generated out of your meeting with
25 Ms. Goodrich and Mr. Belknap, you had first referred

Teresia A. Haase

November 14, 2012

Sacramento, CA

Page 88

1 THE WITNESS: 118 we're talking about,
2 correct?

3 MR. NEAL: Yes. Take your time.

4 (Witness reviewing document.)

5 MR. NEAL: And we will break in 10 or 15
6 minutes for lunch. So we are nearing the end of the
7 morning show.

8 Q. Ms. Haase, have you had an opportunity to
9 familiarize yourself with Exhibit 118?

10 A. Yes.

11 Q. Do you recall providing any comments or
12 making -- or suggesting any revisions with respect to
13 the analysis that's reflected in Exhibit 118?

14 A. I don't recall.

15 Q. Other than the materials prepared by
16 Management Partners, are you aware of any written
17 study or analysis seeking to make the business case
18 for the City to stay with CalPERS?

19 A. Nothing I can recall.

20 Q. Are you aware of any study or analysis that
21 the City has done with Management Partners, or anyone
22 else, or on its own initiative to determine its
23 ability to meet its pension obligations with CalPERS?

24 MR. RIDDELL: Vague as to time.

25 THE WITNESS: I'm sorry. Could you repeat

Teresia A. Haase

November 14, 2012

Sacramento, CA

Page 89

1 the question?

2 MR. NEAL: Sure.

3 Q. Are you aware of any study or analysis that
4 the City has done with Management Partners, or with
5 anyone else, to determine its ability to pay its
6 pension obligations with CalPERS?

7 A. I'm not aware of any?

8 Q. Are you aware of any effort to study
9 alternative benefit structures with other pension
10 administrators or agencies?

11 A. To replace CalPERS?

12 Q. Yes.

13 A. No.

14 Q. If we can go back to Exhibit 154. The
15 second item on the first page, the first sentence,
16 "Interview Eric COP in Stockton."

17 A. Huh-huh.

18 Q. Does that refer to Eric Jones?

19 A. Yes. "COP" is chief of police.

20 Q. "On the importance of CalPERS and the
21 recruitment and retention of police officers." Do
22 you see that sentence?

23 A. Uh-huh.

24 Q. Were you a part of that interview?

25 MR. RIDDELL: Objection. Assumes facts not

EXHIBIT B

Sacramento, CA

1

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT
SACRAMENTO DIVISION

In re:

CITY OF STOCKTON, CALIFORNIA, No. 12-32118
Debtor. Chapter 9

/

Deposition of
LAURIE MONTES
Thursday, November 1, 2012

Reported by:
SANDRA BUNCH VANDER POL, CSR #3032
Certified Merit Reporter
Certified Realtime Reporter
Realtime Systems Administrator credentialed
Fellow, Academy of Professional Reporters
Job No. 38859

ALDERSON REPORTING
1-800-FOR-DEPOS

1 maintain what? I couldn't hear you.

2 THE WITNESS: A workforce.

3 BY MR. NEAL:

4 Q. Has the City performed any analysis or
5 commissioned any study from an outside consultant as
6 to what the impact would be if it did not offer a
7 CalPERS plan or an equivalent plan like a 37 Act
8 Plan?

9 MR. HILE: Objection. Vague and ambiguous.

10 THE WITNESS: Not that I recall.

11 BY MR. NEAL:

12 Q. Turn to page 6 of Exhibit 50. There's a
13 heading, "Labor Contracts." First sentence, "In
14 previous years, the City approved labor contracts
15 that were neither transparent nor sustainable."

16 Do you see that sentence?

17 A. Yes.

18 Q. How are the labor contracts neither
19 transparent nor sustainable?

20 A. We talk about this in our -- I believe it
21 was in our February 28 staff report or even in our
22 June 5th staff report. The labor contracts had --
23 they weren't really clear about the different kinds
24 of elements or the different kinds of benefits that
25 City employees could get in the past.

EXHIBIT C

1 UNITED STATES BANKRUPTCY COURT
 2 EASTERN DISTRICT
 3 SACRAMENTO DIVISION

4 In re:
 5 CITY OF STOCKTON, CALIFORNIA, No. 12-32118
 6 Debtor. Chapter 9

7 /
 8
 9 Deposition of
 10 ANN GOODRICH

11 Tuesday, November 6, 2012
 12
 13
 14

15 Reported by:
 16 SANDRA BUNCH VANDER POL, RMR, CRR, CSR #3032
 17 Realtime Systems Administrator credentialed
 18 Fellow, Academy of Professional Reporters
 19 Job No. 38860
 20

21 -----

22
 23 ALDERSON REPORTING
 24 1-800-FOR-DEPO
 25

1 communications.

2 BY MR. GEOLOT:

3 Q. Well, I'm just asking if a calculation was
4 made of the cost of each proposal without regard to
5 what that was, just to understand if the group
6 figured out what the cost would be -- the savings
7 would be for the retiree medical benefit and the
8 savings would be for the pension benefits?

9 A. Well, they were separately -- you know,
10 there was separate calculations as to the costs of
11 the retiree medical and the projection of cost
12 increases based on the actuary that was done. And
13 then there were projections of the costs for the
14 pensions based on the CalPERS rates.

15 Q. And was there any calculation of -- on the
16 CalPERS pension side of potential savings from a
17 restructuring of the pension benefit obligation?

18 A. No.

19 MR. KILLEEN: I don't know what your timing
20 is for a break. If we could take a five-minute break
21 now and go another half hour until four o'clock.

22 MR. GEOLOT: That would be fine.

23 MR. KILLEEN: I appreciate that.

24 MR. GEOLOT: We will go off the record.

25 (Recess taken at 3:25 p.m. Back on the

1 involving your lawyers, with respect to potential
2 restructuring of the CalPERS pension obligation?

3 MR. KILLEEN: Objection. Asked and
4 answered.

5 THE WITNESS: No.

6 BY MR. WALSH:

7 Q. Could I refer you to Exhibit 154, please.
8 It should be on the top of your stack.

9 A. Yes.

10 Q. You will see on the first page, at the top
11 it reads, "CalPERS follow-up notes form" -- I believe
12 that's supposed to be from, "8-8-12 meeting."

13 Do you see that?

14 A. Yes.

15 Q. Do you recall any earlier meetings with
16 respect to the issues discussed in these notes?

17 A. Well, first off, there was no meeting. This
18 was a phone call. The meeting didn't involve PERS.
19 This was about the -- obtaining this information.

20 And we may have had a previous phone call to this.

21 Q. Okay. When would that previous phone call
22 have occurred vis-a-vis the 8-12 meeting?

23 A. I think it was in July sometime.

24 Q. And was that July 2012 meeting a kickoff
25 meeting with respect to the issues discussed in

1 Exhibit 154?

2 A. Yes.

3 Q. Is that when the project referenced in
4 Exhibit 154 first began?

5 A. I believe so.

6 Q. Are you aware of any prior analysis by the
7 City with respect to the issues discussed in
8 Exhibit 154?

9 MR. KILLEEN: Objection. Asked and
10 answered.

11 BY MR. WALSH:

12 Q. "Prior," I mean prior to the July 2012
13 kickoff?

14 MR. KILLEEN: Asked and answered.

15 THE WITNESS: Well, there's this earlier
16 information collection that Management Partners was
17 involved in. I think that -- that's earlier than
18 July.

19 BY MR. WALSH:

20 Q. And you're referring to the Management
21 Partners' documents that you went over earlier today
22 with Mr. Geolot?

23 A. Yes.

24 Q. Is there any other prior analysis, prior to
25 this July 2012 meeting, that you're aware of that

1 deals with issues addressed in Exhibit 154?

2 A. No.

3 MR. KILLEEN: Objection. Asked and
4 answered.

5 (Exhibit No. 153 was marked.)

6 BY MR. WALSH:

7 Q. Could you turn to Exhibit 153, please.

8 That's an exhibit we have not discussed yet.

9 For the record, this is Exhibit 153, Bates
10 stamped STOCK058095.

11 Ms. Goodrich, as you learned earlier in the
12 deposition today, there have been some e-mail issues.
13 I want to ask if you recognize this document,
14 Exhibit 153?

15 A. I have read it. What's your question again?

16 Q. Do you recognize this document?

17 A. Not particularly, no.

18 Q. Do you have any reason to doubt that you
19 received this from Mr. Belknap on or about
20 September 10th?

21 A. No. I may have gotten it. I just don't
22 recall seeing it.

23 Q. Do you see the -- starting on the second
24 line, he writes, "I had our staff find out what kind
25 of plan the rest of the cities not in CalPERS have

1 Q. And in this document which you've
2 acknowledged occurred after the completion of the
3 AB 506 process, the opening bullet point states that,
4 "Our objective is to make the business case for the
5 remaining current and in good standing with CalPERS,"
6 correct?

7 A. Yes.

8 Q. And you say, in order to make that business
9 case, you want to seek the information that's set
10 forth in items No. 1 through 6, correct?

11 A. Yes.

12 Q. So you were seeking to obtain the
13 information that's enumerated in 1 through 6,
14 correct?

15 A. Well, I think we already -- we anecdotally
16 knew most of this information. But we wanted to be
17 able to specifically state that we had checked with
18 all these jurisdictions and that -- that it wasn't
19 just based on anecdotal understanding of what common
20 practices are.

21 Q. Well, correct me if I am wrong. I just want
22 to understand the process here. But prior to
23 obtaining the 1 through 6, at best what you had was
24 anecdotal information, correct?

25 MR. KILLEEN: Objection. Misstates prior

1 testimony.

2 THE WITNESS: The -- the City, or the
3 different participants in this process, myself
4 included, and the surveys that Doug Johnson did, you
5 know, includes for the survey groups that we used,
6 what their pension benefits were.

7 My previous experience in multiple
8 jurisdictions and surveying other jurisdictions, my
9 knowledge of the 1937 Act system, which jurisdictions
10 have them.

11 We had a fairly decent understanding of what
12 jurisdictions were in PERS, but we wanted to have
13 very specific review to make sure that we could
14 state, if anybody asked us, that we had looked, and
15 here was all the information, other than just based
16 on different people's understanding.

17 BY MR. GARDENER:

18 Q. And in -- well, had anyone interviewed --
19 Item No. 2 says that, "We should interview the chief
20 of police," correct?

21 A. Yes.

22 Q. Had anyone interviewed him before that?

23 A. They --

24 MR. KILLEEN: Objection. Vague.

25 THE WITNESS: There had been many meetings

EXHIBIT D

1 UNITED STATES BANKRUPTCY COURT
 2 EASTERN DISTRICT
 3 SACRAMENTO DIVISION

4 In re:
 5 CITY OF STOCKTON, CALIFORNIA, No. 12-32118
 6 Debtor. Chapter 9

7 /
 8
 9 Videotape Deposition of
 10 ROBERT DEIS
 11 Wednesday, November 28, 2012

12
 13

14 Reported by:
 15 SANDRA BUNCH VANDER POL, RMR, CRR, CSR #3032
 16 Realtime Systems Administrator credentialed
 17 Fellow, Academy of Professional Reporters
 18 Job No. 38955

19
 20

21
 22
 23
 24
 25

ALDERSON REPORTING
 1-800-FOR-DEPO

1 Q. And what is the basis for the City's
2 business judgment?

3 A. The basis for the business argument why we
4 can't is, as we discussed earlier, fear of being
5 unable to staff a city, most acutely in the Police
6 Department. Even if all the positions were full, we
7 are way understaffed compared to other cities.

8 And then you pile on the fact that we had a
9 huge amount of vacancies, as we have lost people even
10 before we had the conversation about PERS.

11 In conversations with the police chief, I
12 feel confident that we will lose even more police
13 employees, and we will have an inability to fill the
14 positions.

15 Q. Has the City considered forming its own
16 independent defined benefit plan for its employees?

17 A. No.

18 Q. Has the City considered joining or
19 affiliating or aligning itself with an existing
20 defined benefit pension plan, such as a 37 Act Plan?

21 A. No.

22 Q. There's an attachment to your letter, and
23 that is a memorandum dated August 14th, 2012, from
24 Chief Jones to you; is that correct?

25 A. Yes.

EXHIBIT E

1 UNITED STATES BANKRUPTCY COURT
2 EASTERN DISTRICT
3 SACRAMENTO DIVISION

4 In re:
5 CITY OF STOCKTON, CALIFORNIA, No. 12-32118
6 Debtor. Chapter 9

7 /
8
9 Deposition of
10 ERIC JONES
11 Wednesday, November 7, 2012

12
13
14

15 Reported by:
16 SANDRA BUNCH VANDER POL, RMR, CRR, CSR #3032
17 Realtime Systems Administrator credentialed
18 Fellow, Academy of Professional NNReporters
19 Job No. 38861

20
21
22

23 ALDERSON REPORTING
24 1-800-FOR-DEPO
25

1 A. Hello.

2 Q. I have just a few questions for you. But
3 before I ask them of you, I want to state for the
4 record my reservation, similar to the reservation on
5 the record in prior depositions and stated by
6 Mr. Geolot earlier today.

7 Chief Jones, an hour or two ago you
8 mentioned a very brief conversation with the city
9 manager prior to your August 14, 2012 memo regarding
10 CalPERS. Do you recall that testimony?

11 A. I do.

12 Q. And as I understood your testimony, the city
13 manager, Mr. Deis, asked you for a memo as to how
14 something would affect retention and recruitment; is
15 that correct?

16 A. Yes.

17 Q. Did that pertain to the possible impairment
18 of the CalPERS liability?

19 A. That was definitely the drive of the
20 conversation.

21 Q. What did Mr. -- is it pronounced Deis or
22 Deis?

23 A. Deis. Like rolling the dice.

24 Q. What did Mr. Deis say to you?

25 A. Again, very brief conversation. Essentially

1 that there was an assertion being made that possibly
2 the PERS contract would be broken. I'm just kind of
3 putting it in my own term here.

4 And he asked me what would that do to -- you
5 know, in your opinion, what would that do to your
6 recruitment/retention efforts. And I said that would
7 make the mass exodus a catastrophe, in my opinion.

8 And so he asked me to write a brief
9 memorandum to him discussing that.

10 Q. And the result of that conversation was your
11 August 14, 2012 memorandum?

12 A. Yes. Can you remind me which exhibit that
13 is, so I can look at it again.

14 Q. Yes. Let me look at it again.

15 MR. GEOLOT: 181.

16 THE WITNESS: 181?

17 MR. WALSH: 109.

18 MR. GEOLOT: I'm sorry. 109.

19 MR. WALSH: Would you like me to restate the
20 question?

21 THE WITNESS: Yes, please.

22 MR. WALSH: Sure.

23 Q. And the result of that conversation with
24 Mr. Deis that you just told us about was your
25 August 14, 2012 memorandum that is Exhibit 109?

1 A. Yes.

2 Q. And approximately how long before this
3 August 14, 2012 memo did you have this conversation
4 with Mr. Deis?

5 A. I would approximate a week, two weeks at the
6 outside.

7 Q. Is that your best estimate, or can you give
8 me a more precise approximation?

9 A. That's my best estimate.

10 Q. Could it be less than a week, possibly? You
11 just don't quite recall?

12 A. Yeah, I don't quite recall. One to two
13 weeks would be my best estimate.

14 Q. Have you ever had any conversation with any
15 representative of CalPERS with respect to possible
16 impairment of the CalPERS contract?

17 A. No.

18 Q. Have you ever spoken with any City Council
19 members regarding any possible impairment of the
20 CalPERS contract?

21 A. No.

22 Q. Could you estimate for me how many -- strike
23 that.

24 MR. WALSH: That's all I have for now.

25 MR. MORSE: Subject to the reservation of

EXHIBIT F

CalPERS Follow-up Notes form 8/8/12 Meeting with Ann and Teresia as well as SDT Meeting

- Our objective is to make the business case for remaining current and in good standing with CalPERS. To be used as evidence in eligibility case

Information to gather in order to craft our argument

1. Get the number of cities and counties contracting with PERS or a similar system (such as 1937 Act counties, or their own system). Compare this to the total number of jurisdictions in the State. Get the total number of public employees who work for cities and counties and the percentage which are covered by such a system. **DONE**
2. Interview Eric (CoP in Stockton) on the importance of CalPERS in the recruitment and retention of police officers. Focus in on the competitive nature of recruitment and retention in the police business. How many applicants actually make it to hiring and training as a officer? Right now public safety is primary concern in Stockton and being able to recruit and retain officers is key to that issue. May be single best reason to stay current with CalPERS. **DONE but need to collaborate with Ann and Teresia and Eric on bullet points**
3. Obtain information on the history of public pension systems and the reciprocity which has developed. Assumption is that there is a "public good" associated with such systems and the reciprocity under a uniform umbrella helps recruit and retain sound employees and delivers value to taxpayers. **NOT DONE**
4. Obtain information as to whether any local agency (city or county as priority) which has actually left PERS coverage. Also any analysis which seriously contemplated such a move. Our assumption is that very few if any jurisdictions have left the system. Additionally that CalPERS makes it difficult and expensive to do so. Get information on what it would cost to replicate a separate retirement system...from anyone that has done so. **DONE**
5. Obtain information from San Diego and San Jose on employee turnover which may be linked to recent decisions to alter retirement system away from traditional. **PARTIALLY DONE**
6. Obtain information on any other requirements or statutes which may be linked to CalPERS or similar plan type in State law. Example may be disability retirement. Are there others? Implication is that leaving CalPERS (or equivalent) may put jurisdiction at risk for violation of other laws. **NOT DONE**

Management Partners is working on obtaining information with respect to item 1, 4 and 5. We should discuss how to pursue other information. In addition we should all probably pursue contacts if any with respect to 4 and 5.

STOCK058096

Outline of analysis developed so far in bullet points:

Analysis of Industry Utilization of CalPERS or Functional Equivalents

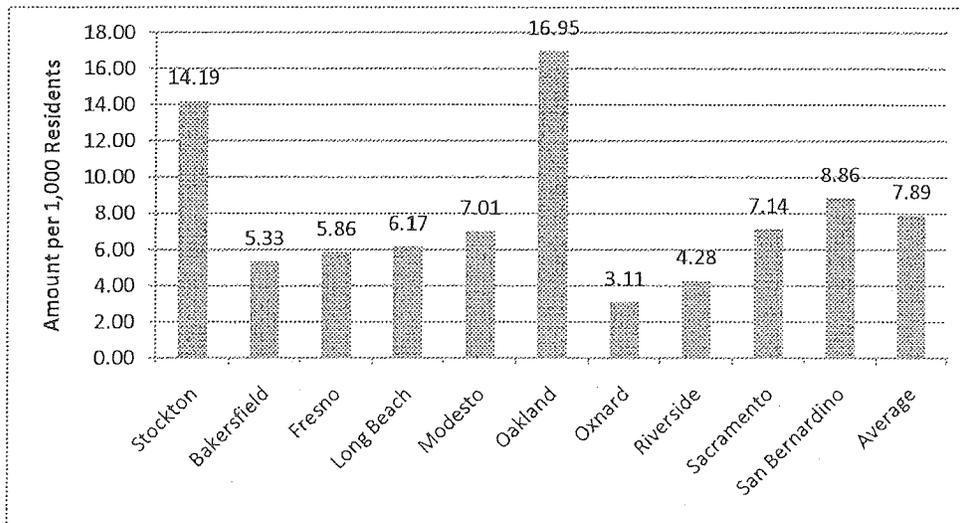
1. **City governments that provide municipal services to the vast majority of California residents contract with CalPERS or the equivalent.** Most California residents live within incorporated cities (%). These cities are responsible for delivery of municipal and public safety services (police, fire, sanitation, public works etc.). The vast majority of city employees in California are covered by a CalPERS plan or the equivalent:
 - a. 449 of the 482 cities in California (93%) have a contract with CalPERS
 - b. Of the 32 (verify) cities that do not, the data indicates that cities of any significant size (greater than 7,000 population) either have their own defined benefit system similar to CalPERS (e.g. Los Angeles, San Diego, San Jose and Fresno) or contract with another jurisdiction participating in a defined benefit program (e.g. Chino Hills, San Rafael, Ceres and San Juan Capistrano).
 - c. Individual plans occur only in the largest of cities, which indicates that there are substantial economies of scale benefits to contracting with CalPERS. There is no city of Stockton's population size operating an independent system, and some larger cities (e.g. Sacramento) have migrated to a CalPERS contract and away from an independent system.
 - d. The vast majority of the other cities in California that do not contract with CalPERS are very small (under 7,000 population) and not remotely representative of a city such as Stockton
 - e. Two cities with a population over 7,000 were located that do not have a defined benefit pension plan; the Town of Danville (population 42,450) and the recently incorporated City of Jurupa Valley (population 96,456). Danville has a defined contribution plan for City employees with employer contribution rates of from 15% to 35%. It contracts for police and fire services. Jurupa Valley is so recently incorporated (2011) that all services are contracted.
 - f. The analysis shows that CalPERS or a similar defined contribution plan is almost universal in California. Of cities with more than 7,000 population, 99.6 percent of the jurisdictions use CalPERS or a functionally similar plan.
 - g. Even including the cities of less than 7,000 population where a dispositive analysis has not been accomplished at least 96.3% of the city jurisdictions in the State use CalPERS or a functionally similar plan.
 - h. Analysis indicates there is no city in California of the size and scope of Stockton which is currently operating without a CalPERS defined benefit plan or a functionally similar plan.

2. **Counties are universally covered by CalPERS, the 1937 Act or the equivalent.** California residents which do not live within an incorporated city receive municipal services from a county government. Research shows that the vast majority of county governments also have a defined benefit program.

STOCK058097

- a. In California counties have the option of contracting with CalPERS, establishing a defined benefit program functionally similar to CalPERS under the 1937 County Employees Retirement Act (37 Act) or establishing an independent system.
 - b. 57 of the 58 counties in California have either contracted with CalPERS (37) or established a 37 Act program (20). One County (San Luis Obispo) has adopted an independent plan. This plan is modeled after the CalPERS defined benefit plan.
 - c. 100% of California counties either contract with CalPERS or have a functionally equivalent plan
3. **Exiting cities have not chosen to opt out of CalPERS, and new cities have chosen to join it.** Because of legal and other restrictions, it is difficult and relatively expensive for any city or county to cease contracting with CalPERS. In addition simple analysis shows that CalPERS must offer compelling economies of scale savings in terms of operational costs, given the fact that only the very largest cities in the State have elected to establish independent plans. For these reasons:
- a. We have not been able to locate any local government jurisdiction which has ceased contracting with CalPERS in recent history. This suggests that the barriers to exiting are significant and / or that the economies of scale for participation are compelling.
 - b. Newly incorporated cities do have a choice about retirement systems and here the evidence suggests that for business and competitive reasons newly incorporated cities have chosen to contract with CalPERS.
 - c. Since 1990 there have been 26 new cities incorporated in California. 24 of these cities have contracted with CalPERS. One (Chino Hills) has contracted with a county for 37 Act coverage. One City (Jurupa Valley) is still so new it is operating under county and contracted services. The next newest city (Eastvale) incorporated in 2010 and contracted with CalPERS in 2012.
4. **There is no business precedent for a City of Stockton's relative size and complexity to provide a pension other than CalPERS or its functional equivalent.** Analysis of city and county pension plans in California indicates that participation in a defined benefit plan similar to that provided by Stockton under its CalPERS contract is virtually universal in the State of California
- a. Of the 540 general purpose governments (cities and counties) which provide municipal services such as police protection virtually 100% (a minimum of 97%) are using a CalPERS plan or the equivalent.
 - b. Virtually the entire population of the State which receives municipal services (at least XX%) is served by a local government that participates in CalPERS or its equivalent.
 - c. Because very small jurisdictions as well as the jurisdictions of Danville and Jurupa Valley contract for public safety services via a county or special district, it is clear that every public safety agency of any significant size is covered by a CalPERS or equivalent pension formula
 - d. No business precedent whatsoever exists for a City of Stockton's relative size and complexity to not offer a CalPERS defined benefit or equivalent. Stockton is not big enough to support an independent pension plan and must contract with CalPERS or another similar provider in order to provide the benefits which are virtually universal with respect to the employees it needs to hire and retain.

Violent Crime per 1,000 Residents

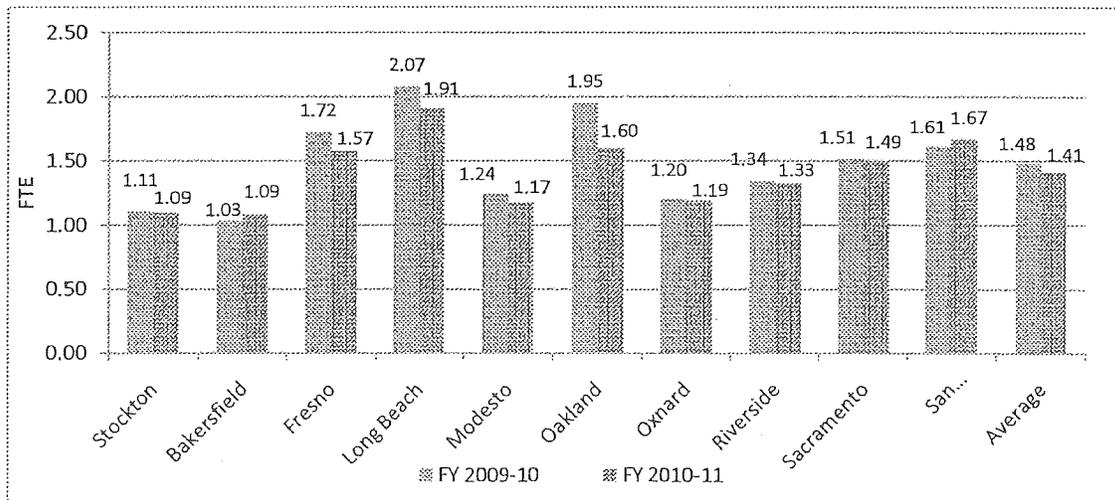


Source: FBI Uniform Crime Reports 2011

Stockton has the second from highest rate of violent crime per 1,000 residents, much higher than the average for the peer jurisdictions.

3. **Stockton has fewer sworn police officers per capita than cities with much lower violent crime.** The number of sworn police officers per 1000 residents is shown in the chart below for the Fiscal Years 2010 and 2011.

Sworn Police per 1,000 Residents (FTE) for FY 2009/10 – 2010/11

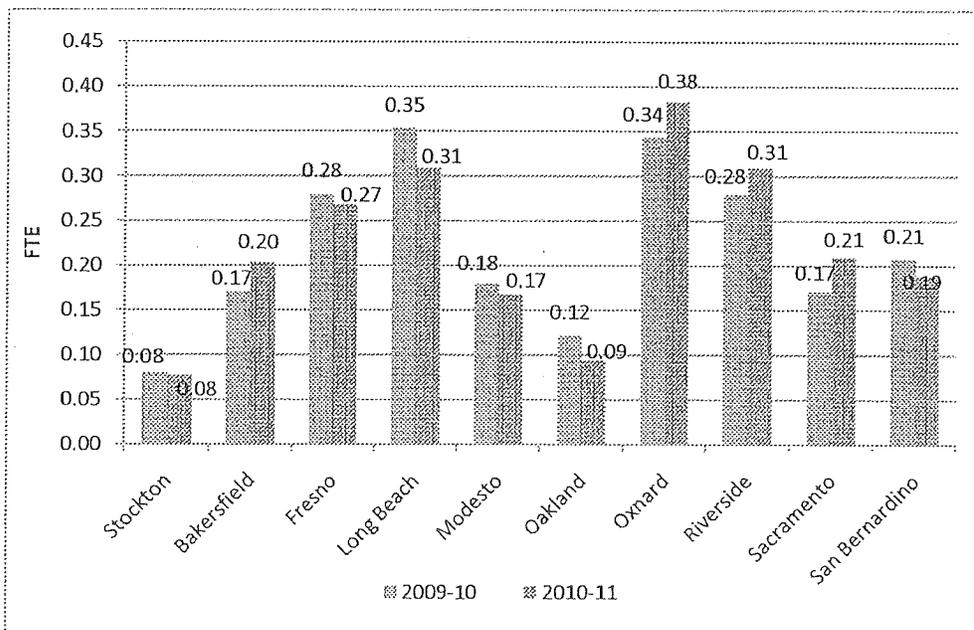


STOCK058100

The amount of Sworn Police per 1,000 residents in Stockton was the second lowest in Fiscal Year 2009-10 and tied for the lowest in 2010-11 in comparison to its peers. The low staffing portrays the shortage of resources needed for a higher service demand.

4. **The combination of high violent crime and low sworn officer staffing makes Stockton an extremely challenging policing environment. Of the peer jurisdictions Stockton has the very lowest level of sworn police officers per violent crime. As a result, and given compensation and benefit reductions, retention and recruitment is also a challenge.**

Sworn Police per Violent Crime (FTE) for FY 2009/10 – 2010/11



Stockton has the lowest amount of Sworn Police available per violent crime.

- a. Crime and violent crime per sworn position
 - b. Officer assaults (need data)
5. Current mix of officers with respect to experience relative to industry standards (have data need analysis)
 6. No business case precedent of use of non-defined benefit pension program for sworn police and fire personnel in California (need fire district data and analysis)

Incidence of Defined Benefit Plan Coverage (CalPERS or equivalent in Stockton labor market)

1. Benefits provided to market comparison cities
2. Benefits provided within government employers within 100 mile of Stockton.

STOCK058102

EXHIBIT G

From: Andy Belknap [abelknap@managementpartners.com]
Sent: Monday, September 10, 2012 12:55 PM
To: Teresa Haase; ann goodrich
Subject: Added points
Attachments: CalPERS Business Case Outline Version 2.docx

Here is an updated version including some police statistics.

I had our staff find out what kind of plan the rest of the cities not in CalPERS have for those above 7,000 and we found that there are a few which are not in a defined benefit plan even for police! These include Coalinga and McFarland so far. We'll be updating the statistics but it is still a pretty devastating in terms of the business case for CalPERS
Andy

Andrew S. Belknap
Management Partners Inc.
2107 North First Street, Suite 470
San Jose, CA 95131
abelknap@managementpartners.com
408.437.5400 (office)
805.320.1702 (direct cell)

STOCK058095

EXHIBIT H



CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

City Hall • 425 N. El Dorado Street • Stockton, CA 95202-1997 • 209 / 937-8212 • Fax 209 / 937-7149
www.stocktongov.com

August 15, 2012

Honorable Jerry M. Brown, Governor
Honorable John A. Perez, Speaker of the Assembly
Honorable Darrell Steinberg, Senate President pro Tem
Honorable Bob Huff, Senate Minority Leader
Honorable Connie Conway, Assembly Minority Leader
State Capital Building
Sacramento, CA 95814

REFORM OF PUBLIC PENSION LAW AND PRACTICES

I write to you as leaders in the State of California making you aware of the potential for cities such as Stockton to slip into municipal chaos if the State does not take a leadership role in reforming public pension law and practices. The reasons are somewhat complicated, as will be explained below, but the bottom line is simple: If true public pension reform that produces real cost savings is not initiated by the State, insolvent municipalities like Stockton, having cut everything else, may be compelled by others to reduce their financial support for pensions. Absent state-level legislation leveling the playing field, cities like Stockton will then find themselves at a massive competitive disadvantage in recruiting and retaining employees. This is particularly true in the case of police officers, who are critical to maintaining the fragile fabric of Stockton's community and who almost certainly will leave in increasing numbers if Stockton is forced to reduce its pension obligations while other cities do not or cannot make similar adjustments. Already, well-funded out-of-state capital markets creditors in our bankruptcy case are attacking pensions as a way of freeing up dollars to fund their claims. While we will vigorously defend ourselves, if the bankruptcy court agrees with their legal arguments, because federal law generally trumps state law, Stockton may have no other choice but to unilaterally reduce its financial support for existing and future retirees' pensions, potentially sparking a mass exodus of experienced police officers in one of the state's most violence prone cities.

Stockton's Situation

As you are no doubt aware, due to a "perfect storm" of poor decisions made by previous City leaders, coupled with the long and deep recession that has plagued the central valley, the City of Stockton filed for bankruptcy protection in late June. This action was taken for one reason only: to avert a municipal service delivery melt-down, in which the City would not have the resources to provide the minimal level of services necessary to

August 15, 2012
Reform of Public Pension Law and Practices
Page 2 of 3

support public safety in a large city suffering from one of the highest crime rates in the State and the Nation. Simply put, we could not afford to keep paying for millions of dollars in ill-conceived debt obligations, millions more to cover City retirees (and dependents) with health coverage for life and still millions more to cover judgments and settlements of lawsuits against the City, without unacceptable further cuts to basic core services like police protection, which would cross the threshold from lean to dangerous.

The bankruptcy Rubicon was crossed by the City only after relentless cost cutting for several years, which left the City and its citizens with extremely modest service levels. We have cut police officer staffing by 25%, fire department staffing by 30% and all other General Fund staffing by 43%. At last check, Oakland had 42% more police officers per capita than Stockton, with a similar crime rate. Meanwhile our employees' pay has been reduced by 9% to 23%; additionally, most employees are subject to unpaid furloughs and pay a greater share of employee healthcare. In order to provide room in the budget to fund basic operations and the growing CalPERS cost, we will be required to phase out retiree medical subsidies entirely over the next year.

Due to these reductions, we have already stressed the service delivery system. Stockton's Police Chief has described in the attached memo how acute the challenge is and what it may become in the future.

Retirement Reform Through The Courts

Even more importantly, our capital markets creditors are taking dead aim at CalPERS. Substantial objections to our bankruptcy filing have been filed against the City because we have not unilaterally reduced our pension payments to CalPERS or negotiated such reductions with CalPERS. The City has not expressed any intention of rejecting its CalPERS obligations in bankruptcy court because of our need to provide public safety services. While these objections reflect a deep misunderstanding of what it takes to actually operate a municipal corporation in California, they are being prosecuted by experienced, well-funded and aggressive creditors who are looking to establish precedents that will impact other California cities to which they have potential exposure. They also have much to lose, and will take their best shot at convincing a bankruptcy judge that it is unfair for the City to impair them and other creditors while leaving pension obligations untouched. In spite of the fact that under current circumstances, the City's business judgment is that it cannot impair pensions unilaterally without significant if not irreparable damage to its core operations, it would be a mistake not to take the objections, or their attack on CalPERS, seriously.

Stockton is not interested in defending CalPERS for CalPERS's sake. Like it or not though, a CalPERS defined-benefit pension or some equivalent is a given in nearly all California cities. Our worry is that if the City chose to attempt to take money from pension obligations to pay other creditors, it suddenly will find itself playing on a tilted playing field, on which neighboring cities offering traditional CalPERS pensions will be

August 15, 2012
Reform of Public Pension Law and Practices
Page 3 of 3

able to out-compete the City in attracting and retaining qualified employees, especially police officers and other highly skilled workers. This is of particular concern because of the deep cuts to employee compensation and benefits in recent years, which have left Stockton, for the most part, at the labor market average.

The Need For State Leadership

The only realistic alternative to this scenario is systemic reform applicable to all CalPERS participants, either internally in CalPERS or at the legislative level. We are in favor of fundamental reforms that produce real costs savings in the near term but treat our employees with the sustainability and dignity they deserve. CalPERS should be allowed to collaborate with cities who, along with their employee groups, wish to reduce costs in a managed but sensitive way. However, such reforms cannot be achieved piecemeal. The bottom line is that Stockton, especially in its currently fragile state, cannot be the lone vanguard for pension reform. Our competitive disadvantage in hiring and retaining qualified skilled employees is already daunting, and abrogating existing pension obligations through our bankruptcy process, without action by the State to level the playing field so that we can stay competitive as an employer, would be devastating to our core mission and obligation: to provide the necessary services to support the health, safety and welfare of our citizens.

It is not in the State's interest to sit on the sidelines when it has the power to take a proactive approach to shaping CalPERS pensions to a more sustainable level. We urge you to do so, and time is of the essence. Stockton is prepared to support reforms that produce these results without leaving the City, and possibly others, as an undesirable outlier in a competitive labor market, and we hope the State will be willing to cooperate in that effort.



BOB DEIS
CITY MANAGER

BD:ndm

Attachment

cc: Stockton Mayor and City Council
Honorable Lois Wolk, Senator, 5th District
Honorable Bill Berryhill, Assemblymember, 26th District
Honorable Cathleen Galgiani, Assemblymember, 17th District

::ODMA\GRPWISE\COS.CM.CM_Library:91649.1

MEMORANDUM

August 14, 2012

TO: Bob Deis, City Manager
City Manager's Office

FROM: Eric Jones, Chief of Police
Police Department

SUBJECT: POLICE OFFICER RETENTION AND RECRUITMENT

We have reached the point where we struggle to retain and recruit qualified employees for police as well as other City departments. Currently within the Police Department, we have more than 45 newly hired police officer trainees due to attrition. These 45 newly hired police officer trainees, hired within the past six months, account for 14% (approximately 1 of 7) of our entire police officer force. We expect to lose another 20 to 40 police officers to other law enforcement agencies over the next year; these positions will have to be filled by additional trainees unless we can attract qualified experienced police officers. The Police Department has had difficulty attracting interested experienced police officers from other agencies, and in fact, has not located a qualified experienced officer from another agency in the past several years. This is not a good situation in a City which is already ranked as one of the ten most dangerous cities in the United States, and which will almost certainly set a record in 2012 for the highest number of murders and other violent crimes. Further, a mid-year review showed assaults on our police officers have increased by 100% this year.

If forced by the capital markets creditors and the court to reject our CalPERS contract and reduce pensions for existing and/or future retirees, it is possible, perhaps even likely, that we may face an employee mass exodus, and a dramatic increase in the number of trainee officers. This would be extremely dangerous given our rising violence rates, including assaults on officers. In fact, we simply may not be able to fill our positions at all, given the potential handicap in the marketplace. I understand capital markets creditors have asserted in court filings that our concerns about retention and recruitment are overblown because of the 20% unemployment rate in Stockton. This assertion completely overlooks the fact that there is a very competitive market for many qualified public employees such as police officers and senior managers. We cannot simply fill these positions from the ranks of the unemployed citizens of Stockton without regard to their qualifications. Very few police officer applicants make it through the testing process, hiring background process, and police training program.



ERIC JONES
CHIEF OF POLICE

EJ:pkh