

The following is a discussion of the
City of Stockton Proposed Plan of
Adjustment and Disclosure Statement.

The discussion of the plan is for
purposes of explaining the plan and is
not a solicitation for or against the plan.

City Of Stockton's Plan of Adjustment

October, 2013

Note: Slides 14 & 18 Amended Post-Press Conference



Retrospective

- Stockton was “ground-zero” for foreclosures
- Property values reduced by 2/3rd
- General Fund revenues reduced from \$205M to \$155M while costs increased
- Retiree Medical, enhanced retirement, generous labor contracts and back-loaded debt were cause of cost increases



Stockton's Attempts To Avoid Insolvency

- Service reductions
 - 25% reduction in police officers
 - 30% reduction in fire department
 - 43% reduction in non-safety positions
- Compensation reductions
 - 9-23% reduction in pay (up to 30% in take home pay reductions)

Stockton's Attempts To Avoid Insolvency (cont.)

- FY 12-13 Budget had \$26M deficit
- What was left?
 - Services dangerously low
 - Compensation dangerously low (staff exodus)
 - New taxes?
 - Retiree medical and debt (required Chapter 9)
- Pursued detailed pre-bankruptcy mediation, but not enough



Stockton's Bankruptcy Timeline

- June 28, 2012 filing
- Mediation and litigation over eligibility occurred simultaneously
- Judge decided eligibility in April, 2013
- 15 months after filing we have POA
- Included 19 major creditors, involving over \$2B and various public assets



Stockton Guiding Principles

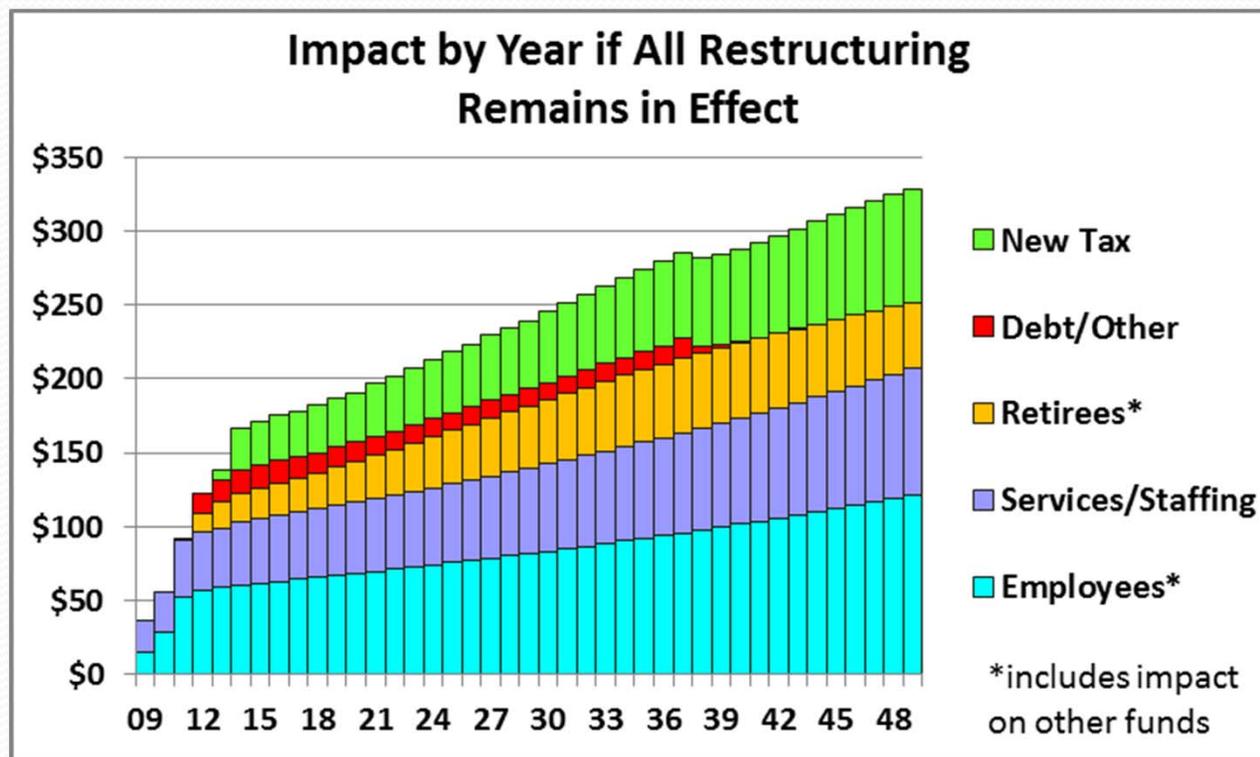
- A sustainable city that provides for health, safety and welfare of community
- Pain must be balanced among interested parties
- Financial stability over at least 10 years; we think stability is achieved over 30 years
- General Fund must get immediate relief and have reduced risk in future
- Protect essential assets—collateral counts



What Is A Sustainable City?

- Exiting bankruptcy isn't enough
- Need stable financial footing
- Need to attack multi-generational crime problem i.e. Marshall Plan on Crime

Who Is Paying for Stockton's Restructuring & Recovery?



- Employee compensation & services/staffing cuts started in 2009 continue to increase in value of avoided costs with inflation
- Retiree medical is a closed system (no new members) so in out-years cost savings begins to ebb as number of beneficiaries declines
- Debt savings is based on specific terms
- Tax duration will depend on economic health of the City



Retirement Reform—Stockton

- Retiree “A” group
 - Receiving average \$24K per year benefit & no medical
 - No change
- Retirees “B” Group
 - Receiving average \$51K per year PERS benefit
 - Receiving \$26K per year medical benefit
 - No social security
 - Lost medical benefit—34% reduction in total retirement benefits



Retirement Reform (cont.)

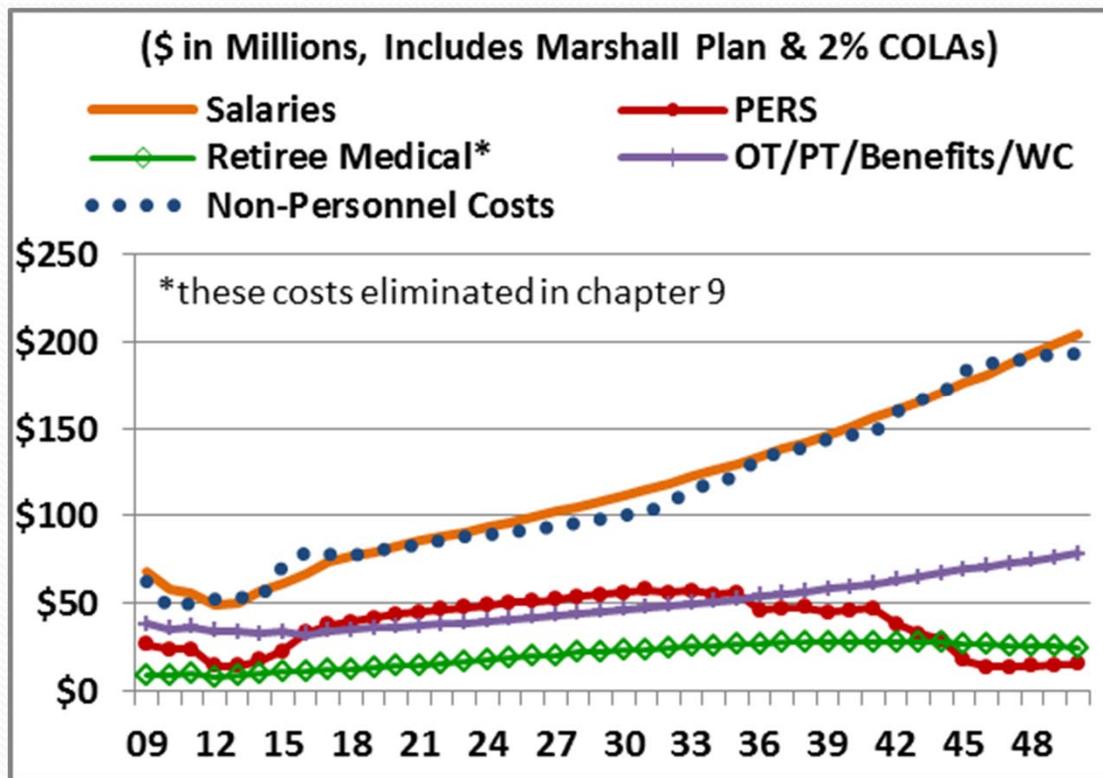
- Employees hired before January 1, 2013
 - Gave up retiree medical
 - Most gave up 7-9% spiking
 - 9-23% reduction in pay reduced PERS benefit
 - Lost sick leave cash out
 - Total impact est. 30-50% reduction in future retirement benefits



Retirement Reform (cont.)

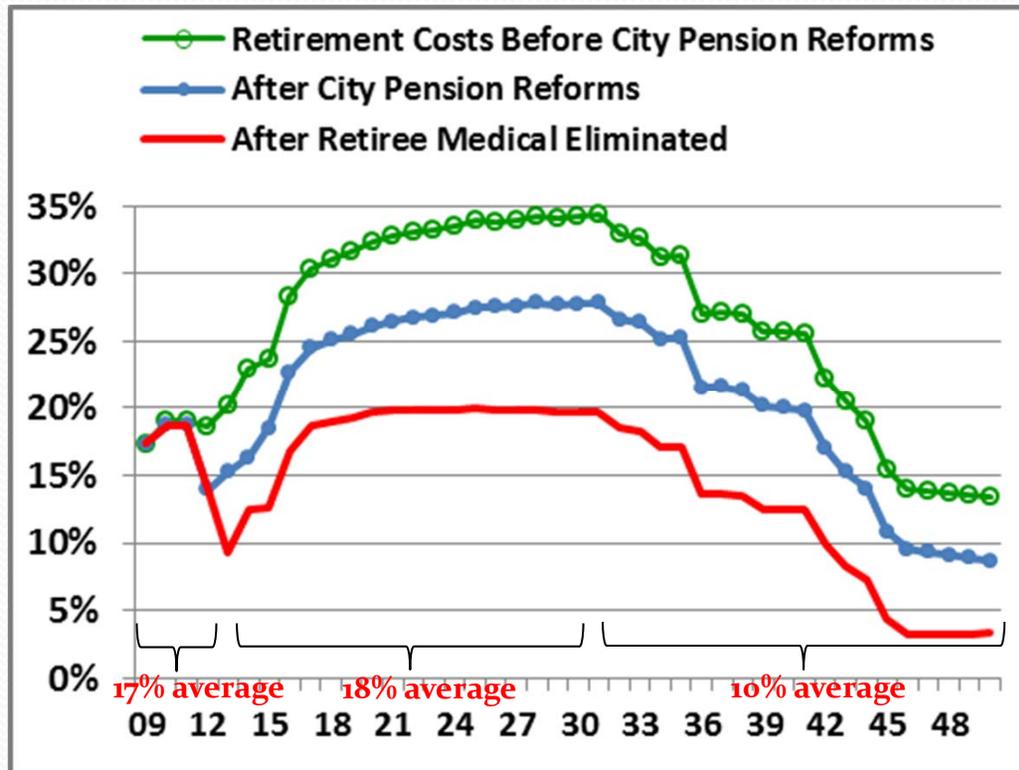
- Employees hired after January 1, 2013
 - Lost everything previously described
 - Lower benefit formulas under state retirement reform
 - Estimated loss of 50-70% in future retirement benefits
- Not enough retirement reform? Reject PERS?

True Impact of Retirement Costs on Stockton's General Fund



- PERS costs must be considered in context of overall GF costs
- Salaries and non-personnel costs much higher impact
- PERS rises, flattens, then drops as unfunded liability paid off
- PERS about the same as other personnel costs (overtime, part-time, health, benefits, workers comp); in long-term these “other” personnel costs will exceed PERS
- Retiree medical will be eliminated; this is major element of retirement costs

Retirement Taken In Perspective



Retirement costs on all three lines based on projected PERS rates and retiree medical costs growth from The Segal Company (independent actuary)

- Pension Reforms
 - Employees pay own 7-9%
 - EPMC (legal spiking) cut
 - 2nd tier (30-50% benefits cut for new hires)
 - 9-23% compensation cut reduces PERS costs
 - \$659M GF savings, \$900M all funds
- Elimination of Retiree Medical
 - \$812M GF savings, \$1.54B all funds
- Grand Total
 - \$1.47B GF savings, \$2.44B all funds



Debt Holders and Insurers

- AMBAC—collateral—library, main police facility, 3 fire stations (\$12.6M)
 - Bonds secured by redevelopment funds with general fund backstop
 - Allows for use of reserve in-lieu of GF backstop
 - Annual debt service capped at 80.5%
 - Debt payment schedule extended in out-years



Debt Holders and Insurers (cont.)

- NCFG—collateral—Arena (\$45M), parking structures (\$32M), SEB office building (\$12M)
 - Arena covered by redevelopment revenues with possible GF backstop; agreement restructures debt (3%) and reduces GF exposure
 - Parking structures will be taken back and new parking enterprise will cover restructured costs and insulate GF (26% reduction near-term but changes over time); 12% total reduction
 - SEB will be paid in full

Debt Holders and Insurers (cont.)

- Assured—collateral—400 E Main (\$40M) with no collateral for POB's (\$124M)
- 400 E Main—TBD
- POB's—TBD

Debt Holders and Insurers (cont.)

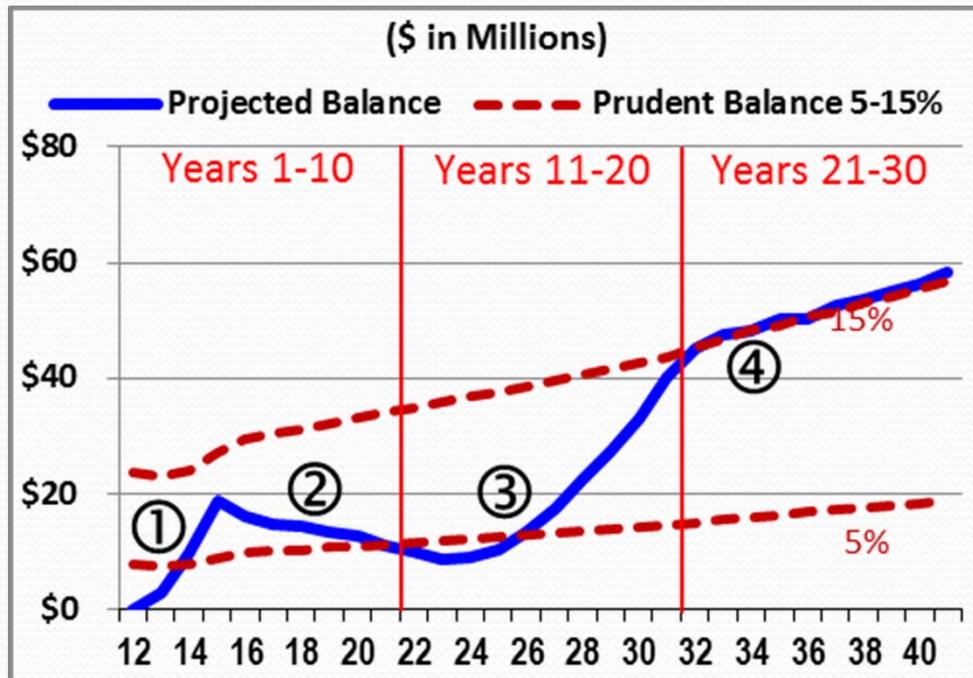
- Franklin—\$35M—collateral—2 golf courses and Oak Park
 - Paid from development fees but backed by GF
 - Exposure is \$2.9M per year
 - Reject agreement but still negotiating
 - Franklin could take “possession” of assets but cannot change use or sell properties; City can continue to operate if Franklin doesn’t want possession



Debt Holders and Insurers (cont.)

- State of CA—Boating and Waterways—\$10.8M—collateral—Marina
 - Reject unenforceable loan (saves \$684K per year)
 - State considering taking over Marina

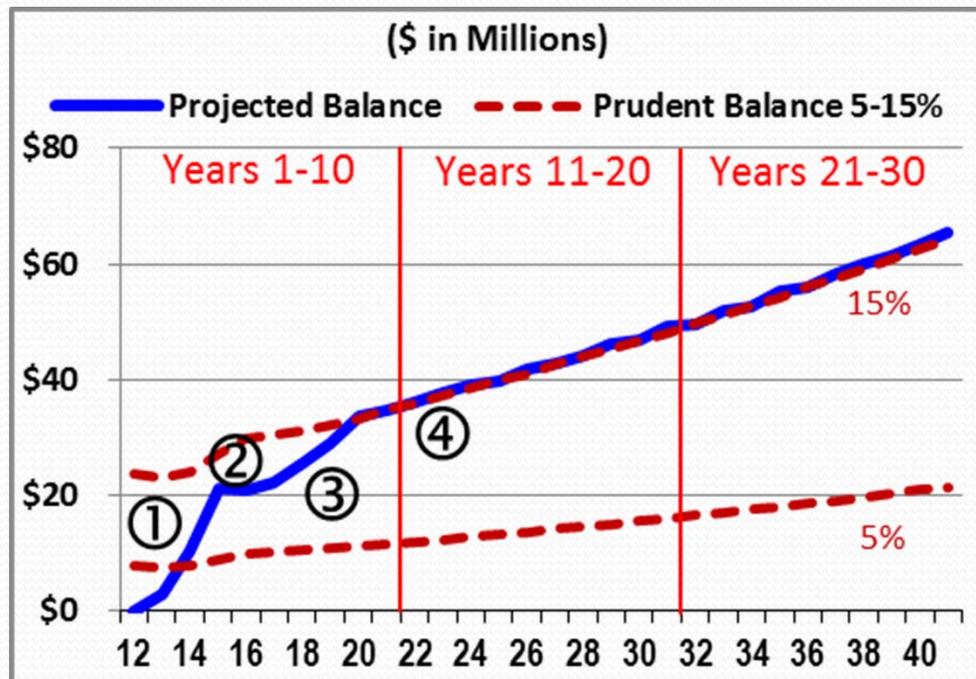
Stockton Long Term Prognosis



1. Balance rises with new tax revenue, pre-Marshall Plan
2. Balance declines with higher PERS rates and new Marshall Plan spending
3. Balance stabilizes, then increases as PERS rates level off and then decline, and with impact of lower debt expenditures
4. When balance reaches 15%, resources in excess of that are used to restore services and fund unmet needs (\$253M through FY40-41), while maintaining stable reserve

15% is just under GFOA-recommended reserve of two month's operating expenditures (16.67%)

Stockton Long Term Prognosis (cont.)

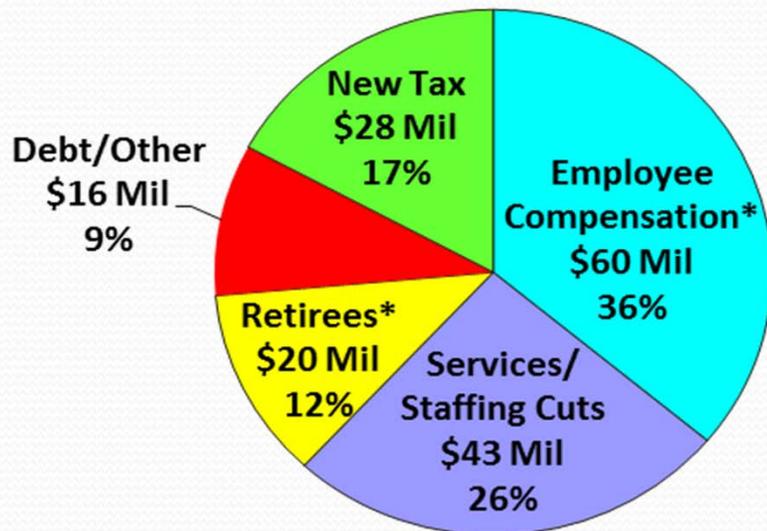


Revenue projections are conservative, so improvement possible; small ongoing compounded growth can make significant difference

1. Balance rises with new tax revenue, pre-Marshall Plan
2. Balance declines with higher PERS rates and new Marshall Plan spending
3. Balance stabilizes, then increases as PERS rates level off and then decline, and with impact of lower debt expenditures
4. When balance reaches 15%, resources in excess of that are used to restore services and fund unmet needs (\$735M through FY40-41), while maintaining stable reserve

Who Is Paying For Stockton's Restructuring & Recovery?

Share of FY2014-15 Restructuring (\$167M Total)



*includes impact on other funds

- New tax assumes passage of Measure A
- Employee compensation & services/staffing cuts started in 2009, total \$90M to date
- Employees & retirees in other funds affected by restructuring savings
- Debt negotiations are ongoing



“Old City of Stockton”

- Dysfunctional organization
- Total compensation 10-25% over labor market average
- Retiree medical was legal equivalent of “ponzi scheme”
- Municipality wasn’t viable
- Not transparent



“New” City of Stockton

- New management team (came to participate in a “calling”)
- Compensation at or below labor market
- Marshall Plan on Crime
- Restructured financing for long-term
- Viable City
- With One Major Caveat (New taxes)



Measure A

- If Measure A does not pass, we are not viable again
- Will need \$11M more in cuts
 - Shut down library system
 - Shut down recreation and community centers
 - 14% more cuts in Fire (after 30% cut)



Stockton's Restructuring While Maintaining Self-Governance

- Unlike Detroit, Flint, Pontiac, Harrisburg and others, democratic self-governance survived
- State laws were followed
- No special powers as receiver/emergency manager
- No aide by other governments/agencies