



CITY OF STOCKTON NEWS RELEASE

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Contact: Connie Cochran
Public Information Officer
(209) 937-8827
connie.cochran@stocktongov.com

City Responds to Creditor Objections *Judge Klein to Determine Eligibility*

(Stockton, CA) - Today, the City of Stockton filed responses with the bankruptcy court to the objections of the capital markets creditors to City's eligibility for chapter 9 bankruptcy relief. The City's filings directly address arguments made by creditors and their hired experts about the City's insolvency and good faith negotiations during the pre-bankruptcy mediation processes. At a status conference on February 26, 2013, Judge Christopher Klein will determine the next steps in the process of resolving the eligibility issue, including possibly scheduling future hearing dates.

"The question of the City's eligibility boils down to whether or not the City was insolvent when our petition was filed on June 28, 2012, and whether the City has acted in good faith both during the AB 506 mediation process and in filing the bankruptcy case," said City Manager Bob Deis. "A municipality is insolvent if it is unable to pay its debts as they come due; we certainly meet that test. Had we not filed for bankruptcy, the City Council

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City of Stockton
News Release – Creditor Objections
Friday, February 15, 2013
Page 2 of 3

would have been unable to adopt a balanced budget consistent with our responsibility to provide vital public safety and other services. In fact, the City would not have been able to make its first payroll in July. Moreover, the record demonstrates that the City has acted in good faith. We participated in the AB 506 mediation process, paid all of the costs of it when the capital markets creditors refused to pay their share, and made a thorough, detailed and specific 790-page restructuring proposal to our creditors. Clearly, we are willing to negotiate in good faith. The proof is that the City has reached agreements with all 9 of its employee labor groups.”

In challenging the City’s eligibility, the capital markets creditors hired their own experts, who formed opinions and rendered advice about what the City could or should have done differently throughout the years -- without considering the feasibility of accomplishing their ideas or the impact, risk and harm to the City and to citizen public safety. While claiming that the City should institute further reductions of existing services and with no further investment in public safety, these same experts base their assumptions and recommendations on Stockton voters approving a total of four new tax measures: a sales tax, a utility users tax, a transient occupancy tax, and a parcel tax – all to provide revenues to pay them.

“Without any data or factual information, and without considering the impact to our already distressed city, they recommend cutting departments already reduced by 43% by an additional 15%; closing libraries, parks, senior and community centers and after school

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City of Stockton
News Release – Creditor Objections
Friday, February 15, 2013
Page 3 of 3

programs; and indefinitely deferring maintenance on streets, trees, buildings,” continued Mr. Deis. “Their assumptions are flawed, their methodology sloppy and their conclusions invalid. This scorched-earth approach further threatens the health and safety of our citizens and our community, consumes scarce resources to pay creditors, disregards the enormous cost reductions already made, and limits the City’s ability to attract new business and employment opportunities.”

After the court rules on the City’s eligibility, the City will submit a plan of adjustment to restructure its debt. Confirmation of the plan will allow the City to emerge from bankruptcy, improve public safety and restore service levels.

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