



CITY OF STOCKTON

OFFICE OF THE CITY MANAGER

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www.stocktongov.com

June 25, 2012

Dear City of Stockton Vendors and Service Providers,

CITY OF STOCKTON BUDGET AND BANKRUPTCY PENDENCY PLAN – VENDORS & SERVICE PROVIDERS WILL BE PAID

The purpose of this letter is to assure you that the City of Stockton is paying its vendors and service providers on a timely, current basis and that it will continue to do so. We understand that there have been numerous reports in the media about Stockton's fiscal crisis. This letter is to clarify our fiscal circumstances and to explain that your company, as one of our critical business partners, will be paid even if the City is forced to petition for chapter 9 bankruptcy protection.

Throughout our fiscal crisis and four years of major General Fund deficits, we have continued timely payment of our bills, our employees and our vendors and service providers. The goods and services you provide are critical to the everyday operations of the City. We rely on your company and will continue to pay you, as we have since our fiscal crisis began.

It is important to understand that the City's total budget for Fiscal Year 2012-13 is \$521 million; \$366 million of the total budget is comprised of restricted funds, for example, water and sewer utilities and transportation funds, that are legally separate and cannot – and will not – be used to solve our General Fund crisis. Goods and services that you provide in support of these functions are paid for out of these restricted funds. The remaining portion of the budget - \$155 million – is our General Fund. The primary sources of revenue for the General Fund are sales tax, property tax, utility user's tax and business license tax, all of which declined during the housing crisis and the great recession. The General Fund provides the funding for services such as police, fire, administration, maintenance of parks and libraries. Over the last few years, these programs and services have been reduced. We can no longer reduce these services that we now provide at a very modest level. Our priority is to preserve services for our citizens, and we rely on you, and the products and services you provide, to provide and maintain these essential public services.

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In a municipality bankruptcy case, the City will control who it pays without approval required by the Bankruptcy Court. Expenses incurred in the normal course of business are essential to continue services and failing to pay increases costs in the future. The focus of the City's recovery plan will be restructuring of above market pay and benefits and unsustainable long term debt.

The City, by law, must adopt a balanced budget by July 1, 2012. The City Council has indicated that we cannot cut more municipal services. The City Council must now adopt a Final Budget on June 26, 2012, that enables it to live within its available revenue. The budget recommended assumes that the City may have to file for bankruptcy filed before July 1, 2012. Municipal bankruptcies can take many years to resolve, but we are hopeful that our bankruptcy would be much shorter.

After filing for chapter 9 protection and before "exiting" bankruptcy, a City implements a Pendency Plan budget pending the outcome of the bankruptcy. The proposed Pendency Plan for Stockton is on the City Council Agenda on June 26, 2012, for the City Council to consider. The details of the proposed Pendency Plan are publicly available on the City website. By reading the Pendency Plan, you will see that our trade vendors and service providers are not subject to any reduction or delay in payments. A link to the June 26, 2012, Council Agenda Item 16.03, is available on the home page of the City's web site at www.stocktongov.com.

The City must make plans to move forward and use the features and protections afforded by the bankruptcy code to preserve basic public health and safety services for the citizens of Stockton.

Thank you for your support. We look forward to our continued partnership, as we move Stockton forward.

If you have any questions or concerns, please feel free to contact our Public Information Officer at (209) 937-8827.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob Deis".

BOB DEIS
CITY MANAGER

cc: City Council