

ANN JOHNSTON
Mayor

KATHERINE M. MILLER
Vice Mayor
District 2



CITY OF STOCKTON

OFFICE OF THE CITY COUNCIL

CITY HALL • 425 N. El Dorado Street • Stockton, CA 95202-1997
209 / 937-8244 • Fax 209 / 937-8568

ELBERT H. HOLMAN, JR.
District 1

PAUL CANEPA
District 3

DIANA LOWERY
District 4

SUSAN TALAMANTES EGGMAN
District 5

DALE FRITCHEN
District 6

An Open Letter to the Community Stockton's Chapter 9 Bankruptcy Protection

July 24, 2012

Dear Community of Stockton:

On June 28, 2012, the City of Stockton filed a petition for protection under chapter 9 of the United States Bankruptcy Code. The City's General Fund, which is the fund that provides essential services, such as police and fire, has exhausted its reserves and is burdened with obligations it cannot pay. The City had no other choice but 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.

Protecting the City and basic services.

This Council, the members of which inherited the City's financial problem, has addressed enormous deficits, year after year, and has made significant structural changes, doing everything in its power to avoid bankruptcy. We have addressed over \$90 million in deficits during the past 3 years, and were faced with an insurmountable additional \$26 million deficit in the current fiscal year that began on July 1, 2012.

The City has reduced Police officers by 25%, Fire department staffing by 30% and all other City employees by 43%. These reductions occurred in a city that has one of the highest crime rates and some of the busiest fire stations in the country. Programs and services have been reduced, workers laid off and furloughed, and other significant reductions made, including closing fire stations and reducing fire staffing on engines and trucks and reducing Police staffing to the point where Police officers frequently can respond only to in-progress crimes where citizens are in immediate danger.

Over the past four years, our employees have experienced unpaid furloughs and large pay reductions. Employees now pay the employee portion of their pensions and contribute a growing share of the health care monthly costs and increased deductibles. Excluding unpaid furloughs and increases in health care costs, our employees' compensation has been cut 9 to 23 percent, depending on the position.

Citizens and employees have given enough. In order to protect our City and our modest level of services, this Council had no other choice but to file for bankruptcy relief.

Citizens will not see a measurable difference in levels of service.

The average citizen will not see a difference in levels of service as a result of our bankruptcy filing. In fact, that is the major reason why we filed for chapter 9 protection. Also, many of the services that you experience every day, such as water and wastewater, are not part of this fiscal crisis. These services are paid for from the rates you pay for the utilities, and those funds are restricted to being used only for these services. Stockton also receives money from federal, state and local government for transportation projects. Transportation money is also restricted for that purpose. These and other special funds cannot and will not be used to resolve our General Fund crisis.

Employees, vendors and service providers will be paid.

The City of Stockton has experienced significant program and service reductions for the last four consecutive years. Throughout our fiscal crisis, we have continued to make timely payment to our employees and our vendors and service providers, all of whom are critical to the every day operation of the City. We rely on them and will continue to pay them, as we have since our fiscal crisis began.

The City has a plan for operating during bankruptcy.

Just prior to filing for chapter 9 protection, the City Council adopted a "Pendency Plan." This plan serves as the budget and the financial operational plan while the City is going through bankruptcy until a final plan, called a "Plan of Adjustment," is developed and approved by the bankruptcy court. The focus of our recovery plan is conducting a top/down review for improved efficiencies, restructuring health insurance commitments to current and future retirees and unsustainable long-term debt, such as bonds and large obligations, backed by the General Fund.

A link to the Pendency Plan is available on the City's web site at www.stocktongov.com/chapter9.

Municipal bankruptcy is different from personal or corporate bankruptcy.

Bankruptcy protects the City by suspending lawsuits from creditors, such as large financial institutions, and allowing the City time to work out a plan of adjustment for addressing its debt. The court does not interfere with the operations of the City and use of property and revenues.

Protecting the City has consequences.

The Council has made some heart-wrenching decisions that many other levels of government have not faced up to. In bankruptcy, there will be impacts on our retirees, employees and financial creditors. Commitments were made to employees in the 1990's, such as free lifetime healthcare for a retiree and dependent, but no funding for these benefits was ever identified or set aside. This problem has been ignored for so long and grown so huge, and the City no longer has the money to pay for these benefits. Unfortunately, our debt obligations, as well as retirement health care benefits, are simply not sustainable given our obligation to continue providing public services to the citizens of Stockton.

The City of Stockton has 2,400 retirees, 1,100 of whom participate in the City's healthcare plan. Beginning on July 1, City of Stockton retirees can continue to receive health care insurance from the City by paying a portion of their monthly premium; they will have to pay the full monthly premium beginning in July, 2013.

While the City has defaulted on some debt obligations, it should be noted that the majority of City debt is covered by insurance and the bondholders will be paid as required under the applicable insurance policy. Bond insurers are paid upfront when bonds are first issued, to protect the interest of investors in the event of, among other risks, a bankruptcy filing. This bankruptcy risk was fully disclosed in the Official Statements and agreements between the City and the bond insurers. The insurers were compensated for covering this risk when the bonds were sold.

Most importantly, it is critical to understand that a city cannot cease operations like a private company and have its assets sold off to satisfy creditors. Our few remaining resources are essential to the delivery of services, economic development and our eventual recovery. And recover we must, because a city cannot go out of business. A city, particularly a major city such as Stockton, must continue operations in a satisfactory manner to assure the health and safety of almost 300,000 residents.

The City must now do what it always should have done – live within its available means and revenues.

Mediation will help with recovery.

The City has spent the past 3 months working with over 100 representatives from our largest creditors in a State-mandated confidential mediation process. It was our hope that we could reach agreements with these creditors that would restructure our debt and result in sufficient savings to avoid bankruptcy. Many participants in the process worked very hard to help the City resolve its fiscal crisis, and we regret that we could not close the gap and prevent insolvency and bankruptcy. We appreciate all those who worked so hard, and we will honor tentative agreements made during mediation. While we did not meet our financial goals through this process, we hope that what we did achieve will help us to exit from bankruptcy more quickly.

A stronger, healthier future for Stockton.

We understand that the bankruptcy filing may create fear and uncertainty. We are committed to minimizing any negative impacts. Many government entities throughout the nation and the world are experiencing fiscal distress of varying degrees. Like corporations such as American Airlines and General Motors that have or are going through bankruptcy, we will continue to operate and provide services. We will use this opportunity to restructure our debt and come out of bankruptcy with a stronger, healthier and sustainable future.

Besides the difficult task of getting our fiscal house in order, the City Council is not sitting still. We are looking beyond this fiscal crisis and implementing other aggressive plans on the crime reduction and economic development fronts. We encourage you to read more about our various Strategic Initiatives by visiting www.stocktongov.com/initiatives.

The City of Stockton has been in business for over 160 years, and we will continue to be in business. While we had hoped for a significantly different outcome, instead of crisis and uncertainty, we can implement a plan of action that will resolve Stockton's deep structural issues, place the City on sound fiscal footing and move Stockton forward.

We are here to answer your questions and address your concerns.

We will continue to keep you informed as we progress through this process. Additional information is available on the City's web site. If you have any questions, please visit www.stocktongov.com/chapter9 and submit questions using the Ask Stockton link or call (209) 937-8827.

Submitted on behalf of the Stockton City Council,

A handwritten signature in blue ink that reads "Ann Johnston". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

ANN JOHNSTON
MAYOR