EXHIBIT A

TO DISCLOSURE STATEMENT

WITH RESPECT TO

THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA

9/27/13 DRAFT

MARC A. LEVINSON (STATE BAR NO. 57613)
malevinson@orrick.com
NORMAN C. HILE (STATE BAR NO. 57299)
nhile@orrick.com
PATRICK B. BOCASH (STATE BAR NO. 262763)
pbocash@orrick.com
ORRICK, HERRINGTON & SUTCLIFFE LLP
400 Capitol Mall, Suite 3000
Sacramento, California 95814-4497
Telephone: +1-916-447-9200
Facsimile: +1-916-329-4900

JEFFERY D. HERMANN (STATE BAR NO. 90445)
jhermann@orrick.com
JOHN A. FARMER (STATE BAR NO. 242775)
jfarmer@orrick.com
ORRICK, HERRINGTON & SUTCLIFFE LLP
777 South Figueroa Street, Suite 3200
Los Angeles, California 90017-5855
Telephone: +1-213-629-2020
Facsimile: +1-213-612-2499

Attorneys for Debtor
City of Stockton

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO DIVISION

In re CITY OF STOCKTON, CALIFORNIA, Debtor.	Case No. 2012-32118 D.C. No. Chapter 9 **PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA**

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The City of Stockton, California, a debtor under chapter 9 of the Bankruptcy Code in the case styled as *In re City of Stockton, California*, Case No. 2012-32118, currently pending in the United States Bankruptcy Court for the Eastern District of California, hereby proposes the following Plan of Adjustment of Debts pursuant to section 941 of the Bankruptcy Code.[1]

Please refer to the accompanying Disclosure Statement for a discussion of the City's financial condition, the developments throughout the Chapter 9 Case, a summary and analysis of this Plan, and for other important information. The City encourages you to read this Plan and the Disclosure Statement in their entirety before voting to accept or reject this Plan. No materials other than the Disclosure Statement and the various exhibits and schedules attached to or incorporated therein have been approved for use in soliciting acceptance or rejection of this Plan.

I. <u>DEFINITIONS, INTERPRETATION AND RULES OF CONSTRUCTION</u>

A. <u>Definitions</u>.

1. **<u>2003 Fire/Police/Library Certificates</u>** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

2. **<u>2003 Fire/Police/Library Certificates Reimbursement Agreement</u>** means the Reimbursement Agreement, dated as of June 1, 2003, by and between the Successor Agency and the City, pursuant to which the Successor Agency has agreed to utilize the Housing Set-Aside Amounts (as defined in the 2003 Fire/Police/Library Certificates Reimbursement Agreement) to reimburse the City for the monies paid by the City under the Fire/Police/Library Lease Back.

3. **<u>2003 Fire/Police/Library Certificates Reserve Fund</u>** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

4. **<u>2003 Fire/Police/Library Certificates Supplemental Trust Agreement</u>** means the First Supplemental Trust Agreement, dated as of [•], 2013, by and among Wells Fargo, the Financing Authority, and the City, the form of which is attached as Exhibit B to the

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[1] The definitions of capitalized terms used throughout this Plan are set forth in Section I(A). Unless otherwise noted, all references to a "section" are references to a section of the Bankruptcy Code.

Declaration of Robert Deis in Support of the City Of Stockton's Motion Under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 725].

5. **__2003 Fire/Police/Library Certificates Trust Agreement__** is the Trust Agreement, dated as of June 1, 2003, by and among Wells Fargo, the Financing Authority, and the City, relating to the 2003 Fire/Police/Library Certificates.

6. **__2003 Fire/Police/Library Certificates Trustee__** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

7. **__2003A Fire/Police/Library Certificates__** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

8. **__2003B Fire/Police/Library Certificates__** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

9. **__2004 Arena Bond Indenture__** means the Indenture of Trust, dated as of March 1, 2004, by and between the Redevelopment Agency and the 2004 Arena Bond Trustee, relating to the 2004 Arena Bonds.

10. **__2004 Arena Bond Reserve Fund__** has the meaning set forth in the definition of Arena Lease Back Transaction.

11. **__2004 Arena Bond Trustee__** has the meaning set forth in the definition of Arena Lease Back Transaction.

12. **__2004 Arena Bonds__** has the meaning set forth in the definition of Arena Lease Back Transaction.

13. **__2004 Parking Bond Reserve Fund__** has the meaning set forth in the definition of Parking Structure Lease Back Transaction.

14. **__2004 Parking Bond Trustee__** has the meaning set forth in the definition of Parking Structure Lease Back Transaction.

15. **__2004 Parking Bonds__** has the meaning set forth in the definition of Parking Structure Lease Back Transaction.

16. **2004 Parking Bonds Indenture** means the Indenture of Trust, dated as of June 1, 2004, by and between the Financing Authority and the 2004 Parking Bond Trustee, relating to the 2004 Parking Bonds.

17. **2006 SEB Bond Reserve Fund** has the meaning set forth in the definition of SEB Lease Back Transaction.

18. **2006 SEB Bond Trustee** has the meaning set forth in the definition of SEB Lease Back Transaction.

19. **2006 SEB Bonds** has the meaning set forth in the definition of SEB Lease Back Transaction.

20. **2006 SEB Indenture** means the Indenture of Trust, dated as of March 1, 2006, by and between the Financing Authority and the 2006 SEB Bond Trustee, relating to the 2006 SEB Bonds.

21. **2007 Office Building Bond Reserve Fund** has the meaning set forth in the definition of Office Building Lease Back Transaction.

22. **2007 Office Building Bond Trustee** has the meaning set forth in the definition of Office Building Lease Back Transaction.

23. **2007 Office Building Bonds** has the meaning set forth in the definition of Office Building Lease Back Transaction.

24. **2009 Golf Course/Park Bond Indenture** means the Indenture of Trust, dated as of September 1, 2009, by and between the Financing Authority and the 2009 Golf Course/Park Bond Trustee, relating to the 2009 Golf Course/Park Bonds.

25. **2009 Golf Course/Park Bond Reserve Fund** has the meaning set forth in the definition of Golf Course/Park Lease Back Transaction.

26. **2009 Golf Course/Park Bond Trustee** has the meaning set forth in the definition of Golf Course/Park Lease Back Transaction.

27. **2009 Golf Course/Park Bonds** has the meaning set forth in the definition of Golf Course/Park Lease Back Transaction.

28. **<u>400 E. Main Office Building Property</u>** has the meaning set forth in the definition of Office Building Lease Back Transaction.

29. **<u>AB 506</u>** means Assembly Bill 506, codified at California Government Code 53760 *et seq.*, which provides that a local public entity in California may file a petition for bankruptcy if it has participated in a neutral evaluation process or has declared a fiscal emergency and adopted a resolution by a majority vote of the governing board.

30. **<u>Administrative Claim</u>** means any Claim, not already paid by the City, for an administrative expense of the kind allowed under section 503(b) and entitled to priority under section 507(a)(2), after giving effect to sections 901 and 904: (i) which the City agrees is an Allowed administrative expense claim; or (ii) which the Bankruptcy Court determines is an Allowed administrative expense claim. The City's consent to the Bankruptcy Court adjudicating Administrative Claim status is given without the City in any way consenting or agreeing that other Claims for postpetition obligations of the City would be entitled to status as Administrative Claims as "the actual necessary costs and expenses of preserving the estate" under section 503(b), and the City reserves its right to maintain that such Claims would instead constitute Other Postpetition Claims as defined herein.

31. **<u>Allowed</u>** means a Claim that:

(a) Has been listed on the list of creditors filed by the City, as such list may be amended from time to time pursuant to Bankruptcy Rule 1009; is not listed as unliquidated, contingent or disputed; and for which no contrary proof of claim has been filed (subject to objection as set forth in the next subsection);

(b) Is asserted in a proof of claim filed in compliance with section 501 and any applicable orders of the Bankruptcy Court or listed in the list of creditors filed by the City and as to which: (i) no objection has been, or subsequently is, filed within the deadline established pursuant to Section X(A) of the Plan (as such deadline may be extended by the Bankruptcy Court upon application of the City from time to time); (ii) the Bankruptcy Court has entered a Final Order allowing all or a portion of such Claim (but only in the amount so allowed);

or (iii) the Bankruptcy Court has entered a Final Order under section 502(c) estimating the amount of the Claim for purposes of allowance;

(c) Is subject to a stipulation between the City and the holder of such Claim providing for the allowance of such Claim;

(d) Is deemed "Allowed" pursuant to this Plan;

(e) Is designated as "Allowed" in a pleading entitled "Designation Of Allowed Claims" (or a similar title of the same import) filed with the Bankruptcy Court by the City on or after the Effective Date; or

(f) Is an Administrative Claim or Other Postpetition Claim as to which the Bankruptcy Court has entered a Final Order allowing all or a portion of such Claim (but only in the amount so allowed).

32. **<u>Ambac</u>** means Ambac Assurance Corporation, a Wisconsin stock insurance corporation.

33. **<u>Ambac Effective Date</u>** means the first business day following the day on which all the conditions contained in section 5.1 of the Ambac Settlement Agreement have either occurred or been expressly waived by the parties thereto.

34. **<u>Ambac Insurance Policy</u>** means the financial guaranty policy issued by Ambac in connection with the Fire/Police/Library Lease Back Transaction, which insures the 2003 Fire/Police/Library Certificates executed and delivered by the 2003 Fire/Police/Library Certificates Trustee to fund affordable housing projects in the City.

35. **<u>Ambac Settlement Agreement</u>** means the Stipulation and Settlement Agreement, dated as of February 26, 2013, by and among the City, the Financing Authority, the 2003 Fire/Police/Library Certificates Trustee, and Ambac, which is attached as Exhibit A to the Declaration of Robert Deis in Support of the City of Stockton's Motion Under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 725].

36. **<u>Ambac Settlement Agreement Motion</u>** means the motion filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 723].

37. **Arena** has the meaning set forth in the definition of Arena Lease Back Transaction.

38. **Arena Claims of the 2004 Arena Bond Trustee/NPFG** means the Claims arising in connection with the Arena Lease Back Transaction (which claims were held by the Redevelopment Agency, but are now controlled and asserted by the 2004 Arena Bond Trustee at the direction of NPFG (as the insurer of the 2004 Arena Bonds) as a result of the assignment by the Redevelopment Agency of all of its rights under the Arena Lease Out and the Arena Lease Back to the 2004 Arena Bond Trustee), as modified by the NPFG Settlement. The Arena Claims of the 2004 Arena Bond Trustee/NPFG do not include any claims arising out of non-payment of the 2004 Arena Bonds as all such claims are claims against the Redevelopment Agency and are not obligations of the City (except to the extent specifically provided under the terms of the NPFG Settlement).

39. **Arena Lease Back** has the meaning set forth in the definition of Arena Lease Back Transaction.

40. **Arena Lease Back Rental Payments** has the meaning set forth in the definition of Arena Lease Back Transaction.

41. **Arena Lease Back Transaction** means the transaction described as follows:

> ***Financial Instruments Involved***. The financial instruments involved in this transaction are the Redevelopment Agency of the City of Stockton Revenue Bonds, Series 2004, (Stockton Events Center – Arena Project) issued on March 16, 2004, in the aggregate principal amount of $47,000,000 (the "**2004 Arena Bonds**"). Wells Fargo is the indenture trustee under the 2004 Arena Bonds Indenture (together with any successor trustee, the "**2004 Arena Bond Trustee**"). A reserve fund exists for the 2004 Arena Bonds with a balance as of September 1, 2013, of $3,511,392.02 (the "**2004 Arena Bond Reserve Fund**"). The funds in the 2004 Arena Bond Reserve Fund are pledged to support repayment of the 2004 Arena Bonds. The 2004 Arena Bonds are insured by NPFG.

Property Involved/Lease. As described in more detail below, the property and facility involved in this transaction is the Stockton Arena (as more particularly described below, the "**Arena**"). In order to facilitate the financing provided by the 2004 Arena Bonds, the City, as owner of the Arena, leased the Arena to the Redevelopment Agency pursuant to that certain Site Lease dated as of March 1, 2004, for a term ending on September 1, 2036, with a possible extension of the term, or reduction in term, to the date upon which the 2004 Arena Bonds are paid in full (the "**Arena Lease Out**"). Under section 510 of the City Charter, the Arena Lease Out may not extend for more than 55 years, or until February 28, 2059. The City contemporaneously leased the Arena back from the Redevelopment Agency for the same number of years (but the lease term cannot extend beyond September 1, 2046) pursuant to the terms of that certain Lease Agreement dated as of March 1, 2004 (the "**Arena Lease Back**"). Thus, the City is the lessor and the Redevelopment Agency is the tenant under the Arena Lease Out, and the Redevelopment Agency is the lessor and the City is the tenant in the Arena Lease Back.

As tenant under the Arena Lease Out, the Redevelopment Agency paid rent for the entire lease term in amount equal to $1.00. The Redevelopment Agency agreed under the Arena Lease Back to allow the City to use the proceeds of the 2004 Arena Bonds to construct the Arena facilities. As tenant under the Arena Lease Back, the City agreed to make semi-annual rental payments in varying amounts ($2,570,687 for fiscal year 2012-13, $2,621,346 for fiscal year 2013-14, $2,673,221 for fiscal year 2014-15, etc.) (the "**Arena Lease Back Rental Payments**"). The Redevelopment Agency assigned its rights under the Arena Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Arena Lease Back Rental Payments from the City, to support the repayment of the 2004 Arena Bonds. In addition, pursuant to the terms of that certain Pledge Agreement between the City as pledgor and the

Redevelopment Agency as pledgee dated as of March 1, 2004 (the "**Arena Pledge Agreement**"), the City pledged certain incremental tax revenues (the "**Pledged Tax Increment**") expected to be collected from the West End Urban Renewal Project No. 1, a former development project area consisting of 642 acres surrounding and including the Arena, located in the heart of downtown Stockton, just north of the City's Crosstown Freeway and east of Interstate 5, containing a mix of commercial, industrial, and residential uses (the "**West End Project Area**"). No other revenues or assets are pledged to support the repayment of the 2004 Arena Bonds, the repayment obligation is non-recourse to the Redevelopment Agency, and the 2004 Arena Bonds are payable solely from the 2004 Arena Bond Reserve Fund, the Arena Lease Back Rental Payments, and the Pledged Tax Increment.

The subject property is the land described as Parcel 4, as shown on the Parcel Map filed for record in the office of the Recorder of the County of San Joaquin, State of California, on March 4, 2003, in Book 23 of Maps, page 15, and the Arena located thereon, an indoor facility capable of hosting events such as ice hockey, indoor football, indoor soccer, concerts, boxing events, rodeos, and other such indoor events, and located at 248 West Fremont Street in downtown Stockton. The Arena includes officials' facilities, media facilities, food services facilities, 24 luxury suites for approximately 288 patrons, the Record Press Club Level with 344 Club Seats, 5,000 square feet of conference space, and ample backstage amenities. The Arena can be configured for 8,600 to 12,000 seats, based upon the nature of the event. The Arena sports an 85 by 200 foot NHL regulation ice sheet and is home to the Stockton Thunder ice hockey team.

The Arena is part of the Stockton Events Center project (the "**Events Center Project**"), which also includes a baseball stadium with a seating capacity of approximately 5,000 people, the University Plaza Waterfront Hotel and University Lofts, the Stockton Events Center Parking Structure, and approximately

60,000 square feet of retail/commercial space. The Events Center Project, including the Arena, is located in downtown Stockton on approximately 24 acres immediately north of and adjacent to the Stockton Channel and within the West End Project Area.

The Arena currently operates at a net loss before debt service and requires a significant General Fund subsidy just to remain in operation.

42. **Arena Lease Out** has the meaning set forth in the definition of Arena Lease Back Transaction.

43. **Arena Pledge Agreement** has the meaning set forth in the definition of Arena Lease Back Transaction.

44. **Assumption Motion** means the motion to be filed by the City pursuant to section 365(a) pursuant to which the City shall seek approval and authorization for its assumption of such executory contracts and unexpired leases as shall be identified in the Assumption Motion.

45. **Assured Guaranty** means, together, Assured Guaranty Corp. and Assured Guaranty Municipal Corp.

46. **Assured Guaranty Settlement** means that certain settlement among the City, the 2007 Office Building Bond Trustee, the Pension Obligation Bonds Trustee and Assured Guaranty, regarding the treatment under this Plan of the Claims arising out of the Office Building Lease Back Transaction and the Pension Obligation Bonds, as set forth in that certain "Settlement Term Sheet, Assured Guaranty Corporation and City of Stockton" dated as of September [__], 2013, and attached hereto as **Exhibit A** [to be attached when finalized] and incorporated by reference (the "**Assured Guaranty Settlement Term Sheet**") and as more particularly set forth in that certain "Settlement Agreement, Assured Guaranty Corporation and City of Stockton" dated as of October [__], 2013, and attached hereto as **Exhibit B** [to be attached when finalized] and incorporated by reference (the "**Assured Guaranty Settlement Agreement**"). Any conflict between the terms of the Assured Guaranty Settlement Term Sheet and the Assured Guaranty Settlement Agreement shall be resolved as set forth in the Assured Guaranty Settlement Agreement. While the Assured Guaranty Settlement Term Sheet and Assured Guaranty

Settlement Agreement should be consulted for the precise terms of the Assured Guaranty Settlement, a summary of the Assured Guaranty Settlement is as follows: [to be inserted when finalized].

47. **Assured Guaranty Settlement Agreement** has the meaning set forth in the definition of Assured Guaranty Settlement.

48. **Assured Guaranty Term Sheet** has the meaning set forth in the definition of Assured Guaranty Settlement.

49. **Ballot** means the ballot(s), in the form(s) approved by the Bankruptcy Court in the Plan Solicitation Order accompanying the Disclosure Statement and provided to each holder of a Claim entitled to vote to accept or reject this Plan.

50. **Bankruptcy Code** means title 11 of the United States Code, as amended from time to time, as applicable to the Chapter 9 Case.

51. **Bankruptcy Court** means the United States Bankruptcy Court for the Eastern District of California, Sacramento Division, or such other court that lawfully exercises jurisdiction over the Chapter 9 Case.

52. **Bankruptcy Rules** means the Federal Rules of Bankruptcy Procedure, as amended from time to time, as applicable to the Chapter 9 Case, together with the local rules of the Bankruptcy Court applicable to the Chapter 9 Case. Unless otherwise indicated, references in this Plan to "Bankruptcy Rule ______" are to the specifically identified rule of the Federal Rules of Bankruptcy Procedure.

53. **Bar Date** means the applicable date by which a particular proof of claim must be filed, as established by the Bankruptcy Court.

54. **Business Day** means a day other than a Saturday, a Sunday, or any other day on which banking institutions in New York, New York, are required or authorized to close by law or executive order.

55. **CalPERS** means the California Public Employees' Retirement System.

56. **CalPERS Pension Plan** means the pension plan contract between CalPERS and the City, dated as of September 1, 1944, as amended (CalPERS ID 6373973665).

57. **<u>CalPERS Pension Plan Participants</u>** means those current and former City employees and their survivors and other dependents who are the beneficiaries of the CalPERS Pension Plan.

58. **<u>Cash</u>** means cash and cash equivalents, including withdrawable bank deposits, wire transfers, checks, and other similar items.

59. **<u>Chapter 9 Case</u>** means the case under chapter 9 of the Bankruptcy Code commenced by the City, styled as *In re City of Stockton, California*, Case No. 2012-32118, currently pending in the Bankruptcy Court.

60. **<u>City</u>** means the City of Stockton, California, the debtor in the Chapter 9 Case.

61. **<u>City Council</u>** means the duly elected legislative body of the City.

62. **<u>CJPRMA</u>** means California Joint Powers Risk Management Authority.

63. **<u>Claim</u>** means a claim against the City or the property of the City within the meaning of section 101(5).

64. **<u>Class</u>** means any group of Claims classified herein pursuant to section 1123(a).

65. **<u>Confirmation Date</u>** means the date on which the Clerk of the Bankruptcy Court enters the Confirmation Order on the docket of the Bankruptcy Court.

66. **<u>Confirmation Hearing</u>** means the hearing to be conducted by the Bankruptcy Court regarding confirmation of this Plan, as such hearing may be adjourned, reconvened or continued from time to time.

67. **<u>Confirmation Order</u>** means the order of the Bankruptcy Court confirming this Plan pursuant to section 943.

68. **<u>Controller</u>** means the California State Controller's Office.

69. **<u>Convenience Class Claim</u>** means any Allowed Claim that is greater than $0 in Allowed amount and less than or equal to $100 in Allowed amount or irrevocably reduced to $100 in Allowed amount at the election of the holder of the Allowed Claim as evidenced by the Ballot submitted by such holder; *provided*, *however*, that an Allowed Claim may not be subdivided into multiple Claims of $100 or less for purposes of receiving treatment as a Convenience Class Claim.

70. **<u>DBW</u>** means the California Department of Boating and Waterways, now the Boating and Waterways division of the Department of Parks and Recreation.

71. **<u>DBW Construction Loan Claim</u>** means the Claim of DBW under the Marina Construction Loan Agreement, secured by a pledge of gross revenues under the terms of a Collateral Assignment of Rents and Leases for the Project Area, which pledge is converted to a pledge of net revenues by virtue of section 928(b). The "**<u>Marina Project</u>**" (as defined and described in the Marina Construction Loan Agreement) has generated no net operating revenues since its official opening on October 30, 2009. The City General Fund subsidy for the Marina Project totals $1,905,299 from fiscal year 2010-11 through the adopted budget for fiscal year 2013-14. The Marina Construction Loan Agreement provides that DBW, upon default, may take over the operations of the Marina Project and charge the costs of operations to the City; however, under the Debt Limit, the City is not liable for such payments in future fiscal years because the Marina Construction Loan was not approved by a 2/3 vote of the voters of the City. Pursuant to the terms of the Marina Construction Loan Agreement, any obligation to repay the Marina Construction Loan from the General Fund is subject to the Debt Limit. Because the Marina Construction Loan was not submitted to and approved by 2/3 of the voters of the City, any obligation of the City's General Fund to make payments under the Marina Construction Loan is *void ab initio*, and the unsecured portion of this Claim is not an Allowed Claim.[2]

72. **<u>DBW Marina Planning Report Loan Claim</u>** means the Claim of DBW under the Marina Planning Report Loan. This Claim is an unsecured Claim against the Redevelopment Agency, is not a claim against the City, and is included herein for information only.

[2] The obligation to pay the Marina Construction Loan from revenues of the Marina Project—as opposed to the General Fund—does not violate the Debt Limit because the Marina Project operates as an enterprise fund. *See City of Oxnard v. Dale*, 45 Cal. 2d 729, 737, 290 P.2d 859, 863 (1955).

73. **<u>DBW Transaction</u>** means two loans made by DBW: the first an unsecured loan to the Redevelopment Agency in the amount of $280,000, bearing interest at 4.5% per year with a repayment term of ten years, with equal annual installment payments due on August 1 of each year commencing on August 1, 2003, as evidenced by that certain Stockton Waterfront Marina $180,000 Planning Loan Contract (also titled the Planning Study Contract, Stockton Waterfront Marina Study Loan) dated as of September 13, 1996, as the same has been amended from time to time (the "**<u>Marina Planning Report Loan</u>**"); and the second a loan to the City in the amount of $13,300,000 for the stated purpose of construction of the Marina Project, bearing interest at 4.5% per year with interest and principal payments due annually on August 1 of each year for 30 years commencing on the August 1 after the final disbursement of loan proceeds, secured by a Collateral Assignment of Rents and Leases for the Project Area as evidenced by that certain Stockton Waterfront Marina $13,300,000 Loan Contract dated as of June 21, 2004 (the "**<u>Marina Construction Loan</u>**" and, as amended, the "**<u>Marina Construction Loan Agreement</u>**" respectively).

74. **<u>Debt Limit</u>** means the debt limit imposed by article XVI, section 18 of the California Constitution. *See In re County of Orange v. Fuji Securities Inc.*, 31 F. Supp. 2d 768 (C.D. Cal. 1998).

75. **<u>Dexia</u>** means Dexia Crédit Local, a banking corporation duly organized and existing under the laws of the Republic of France, acting through its New York branch.

76. **<u>Disallowed</u>** means a Claim or portion thereof that: (i) has been disallowed by a Final Order of the Bankruptcy Court; (ii) has been listed by the City in its list of creditors, as it may be amended from time to time in accordance with Bankruptcy Rule 1009, as in the amount of $0, contingent, disputed, or unliquidated, and as to which no proof of claim has been filed by the applicable deadline or deemed timely filed pursuant to any Final Order of the Bankruptcy Court; (iii) as to which the holder thereof has agreed to be equal to $0 or to be withdrawn, disallowed or expunged; or (iv) has not been listed in the list of creditors and as to which no proof of claim has been filed by the applicable deadline or deemed timely filed pursuant to a Final Order of the Bankruptcy Court.

77. **<u>Disclosure Statement</u>** means the disclosure statement, and all exhibits and schedules incorporated therein, that relates to this Plan and that is approved by the Bankruptcy Court pursuant to section 1125, as the same may be amended, modified, or supplemented in accordance with the Bankruptcy Code.

78. **<u>Disputed Claim</u>** means any Claim or portion thereof that has not become Allowed and that is not Disallowed. In the event that any part of a Claim is a Disputed Claim, except as otherwise provided in this Plan, such Claim shall be deemed a Disputed Claim in its entirety for purposes of distribution under this Plan unless the City otherwise agrees in writing in its sole discretion. Without limiting the foregoing, a Claim that is the subject of a pending application, motion, complaint, objection, or any other legal proceeding seeking to disallow, limit, reduce, subordinate, or estimate such Claim shall be deemed to be a Disputed Claim.

79. **<u>Effective Date</u>** means a Business Day after the Confirmation Date specified by the City on which the conditions specified in Section XIII of the Plan have been satisfied or waived. For purposes of calculating various payments, the Effective Date was assumed to be [__________]. However, because the Confirmation Hearing will not occur until [__________], the City estimates that the Effective Date will occur in [__________], so the calculations will be slightly altered.

80. **<u>Events Center Project</u>** has the meaning set forth in the definition of Arena Lease Back Transaction.

81. **<u>Final Order</u>** means a judgment, order, ruling, or other decree issued and entered by the Bankruptcy Court or by any state or other federal court or other tribunal having jurisdiction over the subject matter thereof which judgment, order, ruling, or other decree has not been reversed, stayed, modified, or amended and as to which: (a) the time to appeal or petition for review, rehearing, or certiorari has expired and no appeal or petition for review, rehearing, or certiorari is then pending; or (b) any appeal or petition for review, rehearing, or certiorari has been finally decided and no further appeal or petition for review, rehearing, or certiorari can be taken or granted.

82. **Financing Authority** means the Stockton Public Financing Authority, a joint powers authority organized and existing under the laws of the state of California and that certain Joint Exercise of Powers Agreement dated as of June 16, 1990, by and between the City and the Redevelopment Agency.

83. **Fire/Police/Library Lease Back** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

84. **Fire/Police/Library Lease Back Rental Payments** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

85. **Fire/Police/Library Lease Back Transaction** means the transaction described as follows:

> ***Fire/Police/Library Financial Instruments Involved***. The financial instruments involved in this transaction are the City of Stockton Certificates of Participation (Redevelopment Housing Projects) Series 2003A, issued on June 27, 2003, in the original principal amount of $1,160,000 (the "**2003A Fire/Police/Library Certificates**") and the Certificates of Participation (Redevelopment Housing Projects) Taxable Series 2003B, issued on June 27, 2003, in the original principal amount of $12,140,000 (the "**2003B Fire/Police/Library Certificates**", and together with the 2003A Fire/Police/Library Certificates, the "**2003 Fire/Police/Library Certificates**"). Wells Fargo is the trustee under the 2003 Fire/Police/Library Certificates Trust Agreement (together with any successor trustee, the "**2003 Fire/Police/Library Certificates Trustee**"). A reserve fund exists for the 2003A Fire/Police/Library Certificates with a balance as of September 1, 2013 of $59,746.48 and for the 2003B Fire/Police/Library Certificates with a balance as of September 1, 2013 of $706,781.35 (together, the "**2003 Fire/Police/Library Certificates Reserve Fund**"). The funds in the 2003 Fire/Police/Library Certificates Reserve Fund are pledged to support payment of the lease payments under the Fire/Police/Library

Lease Out evidenced and represented by the 2003 Fire/Police/Library Certificates. The 2003 Fire/Police/Library Certificates are insured by Ambac.

Properties Involved/Leases. As described in more detail below, the properties that are involved in this transaction are three fire stations, the City's Main Police Facility, and the Maya Angelou Southeast Branch Library (collectively, the "**Fire/Police/Library Properties**"). In order to facilitate the financing to be provided by the 2003 Fire/Police/Library Certificates, the City, as owner of the Fire/Police/Library Properties, leased the properties to the Financing Authority pursuant to that certain Site and Facility Lease dated as of June 1, 2003, for a term ending on June 1, 2033, with a possible extension of the term to the date upon which the 2003 Fire/Police/Library Certificates are paid in full (the "**Fire/Police/Library Lease Out**"). Pursuant to section 510 of the City Charter, the term of the Fire/Police/Library Lease Out cannot extend for more than 55 years or to May 31, 2058. The City contemporaneously leased the Fire/Police/Library Properties back from the Financing Authority for the same number of years pursuant to the terms of a Lease Agreement dated as of June 1, 2003 (the "**Fire/Police/Library Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Fire/Police/Library Lease Out, and the Financing Authority is the lessor and the City is the tenant in the Fire/Police/Library Lease Back.

As tenant under the Fire/Police/Library Lease Out, the Financing Authority paid rent for the entire lease term in a lump sum payment in the amount of $11,838,678.30, being the net proceeds of the 2003 Fire/Police/Library Bonds. As tenant under the Fire/Police/Library Lease Back, the City agreed to make semi-annual rental payments in varying amounts (the "**Fire/Police/Library Lease Back Rental Payments**"). The Financing Authority assigned to the 2003 Fire/Police/Library Certificates Trustee its rights under the Fire/Police/Library Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Fire/Police/Library Lease Back Rental Payments from the City, to support the repayment of the 2003 Fire/Police/Library Certificates. No other revenues or assets are pledged to support the repayment of the 2003 Fire/Police/Library Certificates, the repayment obligation is non-recourse to the Financing Authority, and the 2003 Fire/Police/Library Certificates are payable solely from the 2003 Fire/Police/Library Certificates Reserve Fund and the Fire/Police/Library Lease Back Rental Payments.

Leased Properties. The subject properties are the Fire/Police/Library Properties, which consist of City's Main Police Facility, located at 22 E. Market Street; the Maya Angelou Southeast Branch Library, located at 2324 Pock Lane; Fire Station No. 1, located at 1818 Fresno Avenue; Fire Station No. 5, located at 3499 Manthey Road; and Fire Station No. 14, located at 3019 McNabb Street.

Fire Stations. The City owns 13 fire stations, of which 12 are operating. Fire Stations No. 1, 5, and 14 were built in 1995-96. Each station primarily serves the neighborhood in which it is located and occupies a half-acre site with a building of approximately 5,000 square feet. Station No. 1 is located in the south area of the City in the South Stockton Redevelopment Project Area; it was closed as a result of budget cuts. Station No. 5 is located in the south area off Interstate 5 in the Weston Ranch Subdivision. Station No. 14 is located in the north area in a newer residential community commonly referred to as Spanos Park located off Interstate 5 and Eight Mile Road.

Main Police Facility. The Main Police Facility is located in the downtown area of the City. It was built in 1970 on a two-acre site and includes approximately 44,000 square feet of building space with 140 parking spaces.

Library. The Maya Angelou Southeast Branch Library is located in the south area of the City. It was built in 1996 on a 1.8-acre site and includes approximately 20,000 square feet of building space. The library serves the residents of both the City and San Joaquin County in multiple South Stockton neighborhoods and is one of 10 libraries that comprise the Stockton-San Joaquin County Library System.

86. **Fire/Police/Library Lease Out** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

87. **Fire/Police/Library Lease Out Assignment Agreement** means the Assignment Agreement by and between the Financing Authority and the 2003 Fire/Police/Library Certificates Trustee, pursuant to which the Financing Authority has agreed to assign all rights and interests in the Fire/Police/Library Lease Back to the 2003 Fire/Police/Library Certificates Trustee in substantially the form annexed to the Ambac Settlement Agreement as Exhibit A (and referred to in the Ambac Settlement Agreement as the "Site Lease Assignment Agreement"), which such Ambac Settlement Agreement is attached as Exhibit A to the Declaration of Robert Deis in Support of the City of Stockton's Motion Under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed in the Chapter 9 Case on February 26, 2013 [Dkt. No. 725].

88. **Fire/Police/Library Properties** has the meaning set forth in the definition of Fire/Police/Library Lease Back Transaction.

89. **Fourth Floor Lease of 400 E. Main** has the meaning set forth in the definition of Office Building Lease Back Transaction.

90. **Franklin** means, together, Franklin Advisers, Inc., Franklin High Yield Tax Free Income Fund, and Franklin California High Yield Municipal Fund.

91. **General Fund** means the City's chief operating fund, which is used to account for all financial resources except those required to be accounted for in another fund (such as the Restricted Funds).

92. **General Liability Claim** means a tort or contract Claim filed against the City pursuant to the Government Claims Act, California Government Code section 810 *et seq*.

93. **General Unsecured Claim** means any unsecured Claim *that is not* (1) an Administrative Claim; (2) a General Liability Claim; or (3) a Workers Compensation Claim.

94. **Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin** means the Claims arising from the rejection by the City of the Golf Course/Park Lease Back (as limited under section 502(b)(6)) and the Claims, if any (given the option of possession and quiet enjoyment of the Golf Course/Park Properties under section 365(h)), arising from the rejection by the City of the Golf Course/Park Lease Out, which claims were held by the Financing Authority, but are now controlled and asserted by the 2009 Golf Course/Park Bond Trustee at the direction of Franklin, or its authorized successor in interest, as the sole holder of the 2009 Golf Course/Park Bonds as a result of the assignment by the Financing Authority of all of its rights under the Golf Course/Park Lease Out and the Golf Course/Park Lease Back to the 2009 Golf Course/Park Bond Trustee. The Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin do not include any claims arising out of non-payment of the 2009 Golf Course/Park Bonds as all such claims are non-recourse claims against the Financing Authority secured only by the assignment by the Financing Authority of the Golf Lease Back Rental Payments and all of its rights under the Golf Course/Park Lease Out and the Golf Course/Park Lease Back, and are not obligations of the City.

95. **Golf Course/Park Lease Back** has the meaning set forth in the definition of Golf Course/Park Lease Back Transaction.

96. **Golf Course/Park Lease Back Rental Payments** has the meaning set forth in the definition of Golf Course/Park Lease Back Transaction.

97. **Golf Course/Park Lease Back Transaction** means the transaction described as follows:

Financial Instruments Involved. The financial instruments involved in the Golf Course/Park Lease Back Transaction are the Stockton Public Financing Authority Lease Revenue Bonds, 2009 Series A (Capital Improvement Projects), issued on September 9, 2009, in the aggregate principal amount of $35,080,000 (the "**2009 Golf Course/Park Bonds**"). Wells Fargo is the indenture trustee under the 2009 Golf Course/Park Bonds Indenture (together with any successor trustee, the "**2009 Golf Course/Park Bond Trustee**"). A reserve fund exists for the 2009 Golf Course/Park Bonds with a balance as of September 1, 2013, of $904,380.81 (the "**2009 Golf Course/Park Bond Reserve Fund**"). The funds in the 2009 Golf Course/Park Bond Reserve Fund are pledged to support repayment of the 2009 Golf Course/Park Bonds. The 2009 Golf Course/Park Bonds are not insured; however, Franklin is the sole holder of the bonds.

Properties Involved/Leases. As described in more detail below, the properties that are involved in this transaction are Oak Park, the Van Buskirk Golf Course, and the Swenson Golf Course (as defined below, the "**Golf Course/Park Properties**"). In order to facilitate the financing to be provided by the 2009 Golf Course/Park Bonds, the City, as owner of the Golf Course/Park Properties, leased the properties to the Financing Authority, pursuant to a Site and Facility Lease dated as of September 1, 2009, for a term ending on September 1, 2038, with a possible extension of the term to the date upon which the 2009 Golf Course/Park Bonds are paid in full. Pursuant to section 510 of the City Charter, the term of the lease cannot extend for more than 55 years or to August 31, 2064. (the "**Golf Course/Park Lease Out**"). The City contemporaneously leased the properties back from the Financing Authority for the same number of years pursuant to the terms of the Lease Agreement dated as of September 1, 2009 (the "**Golf Course/Park Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Golf Course/Park Lease Out, and the Financing Authority is the lessor and the City is the tenant in the Golf Course/Park Lease Back.

As tenant under the Golf Course/Park Lease Out, the Financing Authority paid rent for the entire lease term in a lump sum payment in the amount of $1.00. Pursuant to the terms of the Golf Course/Park Lease Back, the Financing Authority agreed to provide the net proceeds of the 2009 Golf Course/Park Bonds (with gross proceeds equal to $35,080,000) to the City for the purpose of financing various capital projects. As tenant under the Golf Course/Park Lease Back, the City agreed to make semi-annual rental payments in varying amounts ($2,415,838 for fiscal year 2012-13, $2,923,119 for fiscal year 2013-14, $2,926,332 for fiscal year 2014-15, etc.) (the "**Golf Course/Park Lease Back Rental Payments**"). The Financing Authority assigned to the 2009 Golf Course/Park Bond Trustee its rights under the Golf Course/Park Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Golf Lease Back Rental Payments from the City, to support the repayment of the 2009 Golf Course/Park Bonds. No other revenues or assets are pledged to support the repayment of the 2009 Golf Course/Park Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2009 Golf Course/Park Bonds are payable solely from the Golf Lease Back Rental Payments. A default occurred on March 1, 2012 in the payment by the City of amounts due under the Golf Course/Park Lease Back.

The subject properties consist of three separate properties, each of which continues to be owned by the City (subject to the Golf Course/Park Lease Out to the Financing Authority and the Golf Course/Park Lease Back from the Financing Authority) (as described below, the "**Golf Course/Park Properties**").

Oak Park. This property is a public park of approximately 61.2 acres, bounded on the east by Union Pacific railroad tracks, on the north by East Fulton Street, on the south by East Alpine Street, and on the west by North Sutter and Alvarado Streets. Oak Park features group picnic areas, 20 picnic tables, two tot lots, 15 barbecue pits, and four restrooms. In addition, Oak Park features 11 tennis courts; two regulation softball fields; the Billy Hebert Field, a 6,000-seat, regulation professional minor league baseball field (renovated in 2002); a multi-use field; a community swimming pool complex with changing facilities; and an approximately

13,875-square-foot ice-rink facility with seating for 350. A one-story senior center of approximately 5,000 square feet, which is available for rental to the public, is also located at Oak Park.

Swenson Golf Course. This property was opened in 1952 and is located on approximately 219 acres at 6803 Alexandria Place. Swenson Golf Course features a classic championship 18-hole, par 72 course; a nine-hole executive, par three course; a 15-station driving range; two putting greens and a practice bunker; and paved cart paths. Also located on this property is a clubhouse, an approximately 2,000-square-foot pro shop, an approximately 5,000-square-foot maintenance and storage facility, and an approximately 2,500-square-foot café with seating.

Van Buskirk Golf Course. This property was opened in 1962 and is located on approximately 214.0 acres at 1740 Houston Avenue. Van Buskirk Golf Course features a classically designed par 72, 18-hole course, an all-grass driving range with 15 stations, two practice greens, and partially paved cart paths. Also located on this property is a clubhouse, an approximately 2,000-square-foot pro shop, an approximately 5,000-square-foot maintenance and storage facility, and an approximately 2,500-square-foot cafe with seating. The Van Buskirk Golf Course real property is subject to a senior reversionary interest, and if it were to be converted from a public recreational use it may revert to private parties.

98. **<u>Golf Course/Park Lease Out</u>** has the meaning set forth in the definition of Golf Course/Park Lease Back Transaction.

99. **<u>Golf Course/Park Properties</u>** has the meaning set forth in the definition of Golf Course/Park Lease Back Transaction.

100. **<u>Impaired</u>** means a Claim or interest that is impaired within the meaning of section 1124.

101. **Indenture Trustee** means Wells Fargo, together with any successor trustee, in its role as the 2003 Fire/Police/Library Certificates Trustee, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, the 2006 SEB Bond Trustee, the 2007 Office Building Bond Trustee, and/or the 2009 Golf Course/Park Bond Trustee, as the context requires.

102. **Insured Portion** means that portion of an Allowed Workers Compensation Claim or an Allowed General Liability Claim that is covered by one or more of the excess risk-sharing pools of which the City is a member, up to the amount of the policy limits, including any excess coverage policies.

103. **Leave Buyout Claim** means a Claim of a former City employee on account of unpaid sick leave or other compensation or reimbursement due upon such employee's retirement or other separation from City service.

104. **Marina Construction Loan** has the meaning set forth in the definition of DBW Transaction.

105. **Marina Construction Loan Agreement** has the meaning set forth in the definition of DBW Transaction.

106. **Marina Planning Report Loan** has the meaning set forth in the definition of DBW Transaction.

107. **Marina Project** has the meaning set forth in the definition of DBW Construction Loan Claim.

108. **Marshall Plan** means the plan titled "Marshall Plan: Violence Reduction Strategy, Stockton, California," written by David M. Bennett and Donna D. Lattin and adopted by the City Council. The Marshall Plan aims to reduce homicides and gun violence in the City through, among other measures, additional hires of police and other safety officers. The Marshall Plan is publicly available at http://www.stocktongov.com/files/CouncilAgenda_2013_4_02_ item_15_01_MarshallPlan.pdf.

109. **Measure A** means the City measure on the November 5, 2013 ballot, which, if passed by the electorate, will raise sales tax in the City by 3/4 cent.

110. **Notice of the Effective Date** shall have the meaning ascribed to such phrase in Section XIV(E) of the Plan.

111. **NPFG** means National Public Finance Guarantee Corporation, a New York stock insurance corporation.

112. **NPFG Settlement** means that certain settlement among the City, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, the 2006 SEB Bond Trustee, and NPFG, regarding the treatment under this Plan of the Claims arising out of the Arena Lease Back Transaction, the Parking Structure Lease Back Transaction, and the SEB Lease Back Transaction, as set forth in that certain "Settlement Term Sheet, City of Stockton and National Public Finance Guaranty" dated as of September [__], 2013, and attached hereto as **Exhibit C** and incorporated by reference (the "**NPFG Settlement Term Sheet**") and as more particularly set forth in that certain "Settlement Agreement, City of Stockton and National Public Finance Guaranty" dated as of September [__], 2013, and attached hereto as **Exhibit D** and incorporated by reference (the "**NPFG Settlement Agreement**"). Any conflict between the terms of the NPFG Settlement Term Sheet and the NPFG Settlement Agreement shall be resolved as set forth in the NPFG Settlement Agreement. While the NPFG Settlement Term Sheet and NPFG Settlement Agreement should be consulted for the precise terms of the NPFG Settlement, a summary of the NPFG Settlement is as follows:

- The City will assume the SEB Lease Back, and as a result, the City will continue to remain in possession, custody and control of the SEB Properties.
- After modification of the payment terms of the Arena Lease Back that will reduce the exposure of the General Fund on account of Arena Lease Back Rental Payments, the City will assume the Arena Lease Back, and as a result, the City will continue to remain in possession, custody and control of the Arena.
- The City will create a new parking authority for the City that will be comprised of the Parking Structure Properties, other downtown

parking structures and lots, and downtown parking meters, as well as parking enforcement revenues.

- Revenues from the newly-created parking authority will be pledged to the 2004 Parking Bond Trustee in support of a modified schedule of payments on the Parking Structure Lease Back, and the General Fund will have no liability for such modified payment schedule. As a result, the City will regain possession, custody and control of the Parking Structure Properties.
- All parties to the NPFG Settlement shall bear their own professional fees.
- All parties to the NPFG Settlement will exchange limited mutual releases except for obligations created under the NPFG Settlement and this Plan.

113. **NPFG Settlement Agreement** has the meaning set forth in the definition of NPFG Settlement.

114. **NPFG Settlement Term Sheet** has the meaning set forth in the definition of NPFG Settlement.

115. **Office Building Claims of the 2007 Office Building Bond Trustee/Assured Guaranty** means the Claims arising in connection with the Office Building Lease Back Transaction (which claims were held by the Financing Authority, but are now controlled and asserted by the 2007 Office Building Bond Trustee at the direction of Assured Guaranty (as the insurer of the 2007 Office Building Bonds) as a result of the assignment by the Financing Authority of all of its rights under the Office Building Lease Out and the Office Building Lease Back to the 2007 Office Building Bond Trustee. The Office Building Claims of the 2007 Office Building Bond Trustee/Assured Guaranty do not include any claims arising out of non-payment of the 2007 Office Building Bonds as all such claims are non-recourse claims against the Financing Authority secured only by the assignment by the Financing Authority of the Office Building Lease Back Rental Payments and are not obligations of the City.

116. <u>Office Building Lease Back</u> has the meaning set forth in the definition of Office Building Lease Back Transaction.

117. <u>Office Building Lease Back Rental Payments</u> has the meaning set forth in the definition of Office Building Lease Back Transaction.

118. <u>Office Building Lease Back Transaction</u> means the transaction described as follows:

Financial Instruments Involved. The financial instruments involved in this transaction are the Stockton Public Financing Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series A (Building Acquisition Financing Project), issued on November 29, 2007, in the aggregate principal amount of $36,500,000 (the "**<u>2007 Series A Bonds</u>**") and the Stockton Public Financing Authority Variable Rate Demand Lease Revenue Bonds, 2007 Series B (Building Acquisition Financing Project), issued on November 29, 2007, in the aggregate principal amount of $4,270,000 (the "**<u>2007 Series B Bonds</u>**" and together with the 2007 Series A Bonds, the "**<u>2007 Office Building Bonds</u>**"). Wells Fargo is the indenture trustee under the 2007 Office Building Bonds Indenture (together with any successor trustee, the "**<u>2007 Office Building Bond Trustee</u>**"). A reserve fund exists for the 2007 Office Building Bonds in an amount equal to the initial reserve requirement funded by a surety policy for the reserve fund issued by Assured Guaranty, which such initial reserve requirement equals $2,973,431.75 (the "**<u>2007 Office Building Bond Reserve Fund</u>**"). The funds in the 2007 Office Building Bond Reserve Fund are pledged to support repayment of the 2007 Office Building Bonds. The 2007 Office Building Bonds are insured by Assured Guaranty.

Property Involved/Lease. As described in more detail below, the property that is involved in this transaction is an office building that was purchased with the net proceeds of the 2007 Office Building Bonds and located at 400 E. Main Street in Stockton (the "**<u>400 E. Main Office Building Property</u>**"). In order to facilitate the financing to be provided by the 2007 Office Building Bonds, the City, as prospective owner of the 400 E. Main Office Building Property, leased the property to the Financing Authority pursuant to that certain Site and Facility Lease dated as of November 1, 2007, for a term ending on September 1, 2048, with a possible extension of the term to the date upon which the 2007 Office Building Bonds are paid in full, but in any event no later than September 1, 2058 (the "**Office Building Lease Out**"). The City contemporaneously leased the 400 E. Main Office Building Property back from the Financing Authority for the same number of years pursuant to the terms of the Lease Agreement dated as of November 1, 2007 (the "**Office Building Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Office Building Lease Out, and the Financing Authority is the lessor and the City is the tenant under the Office Building Lease Back.

As tenant under the Office Building Lease Out, the Financing Authority paid rent for the entire lease term in the amount of $1.00. Pursuant to the Office Building Lease Back, the Financing Authority agreed to provide to the City the net proceeds of the 2007 Office Building Bonds (with gross proceeds equal to $40,355,000), which the City then used to acquire the 400 E. Main Office Building Property. As tenant under the Office Building Lease Back, the City agreed to make annual rental payments in the amount of interest accruing on the 2007 Office Building Bonds plus principal amortization specified in the Office Building Lease Back (such principal amortization is scheduled as $155,000 due on September 1, 2012, $165,000 due on September 1, 2013, and $175,000 due on September 1, 2014) (the "**Office Building Lease Back Rental Payments**"). The Financing Authority assigned its rights under the Office Building Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Office Building Lease Back Rental Payments from the City, to support the repayment of the 2007 Office Building Bonds. No other revenues or assets are pledged to support the repayment of the 2007 Office Building Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2007 Office Building Bonds are payable solely from the Office Building Lease Back Rental Payments.

Even before filing the Chapter 9 Case, due to a lack of revenues generated by the 400 E. Main Office Building Property, and as a result of the deteriorating finances of the City, the City defaulted in the payment of the Office Building Lease Back Rental Payments. As a result, the 2007 Office Building Bond Trustee filed suit to enforce the Office Building Lease Back, with the result that the Superior Court of the State of California for the County of San Joaquin entered an order authorizing the 2007 Office Building Bond Trustee to take over the management of the 400 E. Main Office Building Property, which was accomplished by tasking the existing property management company to manage the property for the benefit of and at the direction of the 2007 Office Building Bond Trustee. *See* "Judgment of Possession," *Wells Fargo Bank, National Association v. City of Stockton*, Superior Court of California, County of San Joaquin, case no. 39-2012-00280741-CU-UD-STK. The Judgment of Possession found the City to be in unlawful detainer of the 400 E. Main Office Building Property and awarded possession of the 400 E. Main Office Building Property to the 2007 Office Building Bond Trustee. Under the Judgment of Possession, the 2007 Office Building Bond Trustee can operate and re-let the 400 E. Main Office Building Property for the account of the City, but cannot cause the fee interest or the leasehold interest of the City in the 400 E. Main Office Building Property to be sold. The Judgment of Possession also entitles the 2007 Office Building Bond Trustee to reimbursement of its costs for the unlawful detainer proceeding, as well as reimbursement of its attorney fees and expenses under the Office Building Lease Back.

Subsequent to the change in control of the management of the property, the City has leased space on the fourth floor of the 400 E. Main Office Building from the management company for the use and occupancy of the City's information technology (the "**Fourth Floor Lease of 400 E. Main**"). The treatment of the Fourth Floor Lease of 400 E. Main is specified in the Assured Guaranty Settlement [to be finalized].

The 2007 Office Building Bonds were issued as variable rate demand bonds under the terms of which the interest rate was reset on a weekly basis. Holders of the 2007 Office Building Bonds had the right to tender their bonds for purchase by the 2007 Office Building Bonds Trustee, acting as tender agent, on any date. Tendered bonds were to be remarketed to other investors pursuant to a remarketing agreement between the Financing Authority and a registered broker dealer. In order to provide liquidity to holders of the 2007 Office Building Bonds in the event that the tendered bonds could not be so remarketed, the Financing Authority and the City entered into a Standby Bond Purchase Agreement, dated as of November 29, 2007 (the "**Office Building Standby Agreement**"), with Dexia. Under the Office Building Standby Agreement, Dexia agreed to purchase any 2007 Office Building Bonds that could not be remarketed. In the event of such a purchase, the bonds so purchased ("**Bank Bonds**") were subject to adjustments to their terms so long as they were held by Dexia. On February 28, 2012, the City Council voted to commence the AB 506 process, and on May 1, 2012 an event of default of occurred in the payment by the City of the amounts due under the Office Building Lease Back. As a result of the announcement of the commencement of the AB 506 process, the occurrence of the default, and the filing of the Chapter 9 Case, all of the 2007 Office Building Bonds were tendered for purchase and were unable to be remarketed (the final notice of tender for the 2007 Series A Bonds is dated February 29, 2012, and the final tender date for the 2007 Series B Bonds is September 14, 2012). Accordingly, Dexia purchased the 2007 Office Building Bonds and is now the sole holder thereof. As Bank Bonds, the 2007 Office Building Bonds now bear interest at the Default Rate under the Office Building Standby Agreement, which is equal to the Base Rate plus 3% (currently, 6.25%).[3] In addition, the Bank Bonds are subject to mandatory early redemption over a seven-year period.

Leased Property. The 400 E. Main Office Building Property is located at 400 East Main Street, Stockton. It consists of a Class A, eight-story, steel-framed office building with approximately 246,541 square feet. The office building is situated on a 2.07-acre site, which is a square block fronting on East Main Street, Market Street, South California Street, and South Sutter Street. The building has an "H"-shaped floor plate with office wings flanking a central lobby on the first floor. The lower three floors step back successively to form terraces extending around the building at Floors 2, 3, and 4, while the tower above Floor 4 has planar walls. The building's exterior consists of polished granite walls with tinted single-pane glass window and painted bronze aluminum sections. It was constructed in 1988 and is supported by a foundation of cast-in-place concrete pile in the form of a two-floor subterranean parking garage, which offers a parking ratio of approximately 2.1 per 1,000 square feet, for a total of approximately 518 stalls. The 400 E. Main Office Building Property continues to be owned by the City (subject to the Office Building Lease Out to the Financing Authority and the Office Building Lease Back from the Financing Authority).

119. **Office Building Lease Out** has the meaning set forth in the definition of Office Building Lease Back Transaction.

[3] As defined in the Office Building Standby Agreement, Default Rate "means a rate per annum equal to the Base Rate plus an amount equal to three hundred basis points (3.00%)." Base Rate "means the higher of (a) the fluctuating rate per annum equal to the 'prime rate' listed daily in the 'Money Rate' section of The Wall Street Journal, or if The Wall Street Journal is not published on a particular Business Day, then, the 'prime rate' published in any other national financial journal or newspaper selected by Dexia, and if more than one such rate is listed in the applicable publication, the highest such rate shall be used or (b) the Fed Funds Rate plus fifty basis points (0.5%). Any change in the Base Rate shall take effect on the date specified in the announcement of such change."

120. <u>Office Building Standby Agreement</u> has the meaning set forth in the definition of Office Building Lease Back Transaction.

121. <u>Omitted Agreements</u> shall have the meaning ascribed to such phrase in Section VI(E).

122. <u>Other Postpetition Claims</u> means Claims asserted against the City for services rendered to, or goods delivered to, or obligations incurred by, the City after the Petition Date that do not constitute Administrative Claims.

123. <u>Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG</u> means the Claims arising in connection with the Parking Structure Lease Back Transaction (which claims were held by the Financing Authority, but are now controlled and asserted by the 2004 Parking Bond Trustee at the direction of NPFG (as the insurer of the 2004 Parking Structure Bonds) as a result of the assignment by the Financing Authority of all of its rights under the Parking Structure Lease Out and the Parking Structure Lease Back to the 2004 Parking Bond Trustee), as modified by the NPFG Settlement. The Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG do not include any claims arising out of non-payment of the 2004 Parking Bonds as all such claims are non-recourse claims against the Financing Authority secured only by the assignment by the Financing Authority of the Parking Structure Lease Back Rental Payments and are not obligations of the City (except to the extent specifically provided under the terms of the NPFG Settlement).

124. <u>Parking Structure Lease Back</u> has the meaning set forth in the definition of Parking Structure Lease Back Transaction.

125. <u>Parking Structure Lease Back Rental Payments</u> has the meaning set forth in the definition of Parking Structure Lease Back Transaction.

126. <u>Parking Structure Lease Back Transaction</u> means the transaction described as follows:

Financial Instruments Involved. The financial instruments involved in this transaction are the Stockton Public Financing Authority Lease Revenue Bonds, Series 2004, (Parking and Capital Projects) issued on June 25, 2004, in the aggregate principal amount of $32,785,000 (the "**2004 Parking Bonds**"). Wells Fargo is the indenture trustee under the 2004 Parking Bonds Indenture (together with any successor trustee, the "**2004 Parking Bond Trustee**"). A reserve fund exists for the 2004 Parking Bonds with a balance as of September 1, 2013, of $78,693.23 (the "**2004 Parking Bond Reserve Fund**"). The funds in the 2004 Parking Bond Reserve Fund are pledged to support repayment of the 2004 Parking Bonds. The 2004 Parking Bonds are insured by NPFG.

Properties Involved/Leases. As described in more detail below, the properties and facilities involved in this transaction are the Edmund S. Coy Parking Structure, the Stockton Events Center Parking Structure, and the Market Street Garage (as more particularly defined below, the "**Parking Structure Properties**"). In order to facilitate the financing provided by the 2004 Parking Bonds, the City, as owner of the Parking Structure Properties, leased the properties to the Financing Authority, pursuant to a Site and Facility Lease dated as of June 1, 2004, for a term ending on September 1, 2034, with a possible extension of the term to the date upon which the 2004 Parking Bonds are paid in full (the "**Parking Structure Lease Out**"). Pursuant to section 510 of the City Charter, the term of the Parking Structure Lease Out cannot extend for more than 55 years or to May 31, 2059. The City contemporaneously leased the properties back from the Financing Authority for the same number of years pursuant to the terms of the Lease Agreement dated as of September 1, 2004 (the "**Parking Structure Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the Parking Structure Lease Out, and the Financing Authority is the lessor and the City is the tenant in the Parking Structure Lease Back.

As tenant under the Parking Structure Lease Out, the Financing Authority paid rent for the entire lease term in the amount of $1.00. Pursuant to the Parking Structure Lease Back, the Financing Authority agreed to provide to the

City the net proceeds of the 2004 Parking Bonds (with gross proceeds equal to $32,785,000), which were used by the City to fund the construction of the Edmund S. Coy Parking Structure (described below) and other capital improvements. As tenant under the Parking Structure Lease Back, the City agreed to make semi-annual rental payments in varying amounts ($1,960,916 for fiscal year 2012-13) (the "**Parking Structure Lease Back Rental Payments**"). The Financing Authority assigned its rights under the Parking Structure Lease Back, including the rights to enforce the lease after default by the City, and including the stream of Parking Structure Lease Back Rental Payments from the City, to support the repayment of the 2004 Parking Bonds. No other revenues or assets are pledged to support the repayment of the 2004 Parking Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2004 Parking Bonds are payable solely from the Parking Structure Lease Back Rental Payments.

Even before filing the Chapter 9 Case, due to a lack of revenues generated by the Parking Structure Properties, and as a result of the deteriorating finances of the City, the City defaulted in the payment of the Parking Structure Lease Back Rental Payments. As a result of these circumstances, the 2004 Parking Bond Trustee filed suit to enforce the Parking Structure Lease Back, with the result that the Superior Court of the State of California for the County of San Joaquin issued two decisions on April 19, 2012, one granting the 2004 Parking Bond Trustee "Judgment of Possession After Unlawful Detainer" and the other appointing a receiver for the Parking Structure Properties under an "Order Appointing Receiver." *See Wells Fargo Bank, National Association v. City of Stockton*, Superior Court of the State of California, County of San Joaquin, case no. 39-2012-002777622-CU-UD-STK.

***Leased Properties*.** The subject properties consist of three parking structures that continue to be owned by the City (subject to the Parking Structure

Lease Out to the Financing Authority and the Parking Structure Lease Back from the Financing Authority) (the "**<u>Parking Structure Properties</u>**").

Edmund S. Coy Parking Structure. This structure is located in the vicinity of Harbor and Channel Streets in downtown Stockton. The six-story parking structure provides approximately 575 parking spaces to the Central Business District to accommodate parking for existing retail, commercial, and office development. The structure has approximately 7,500 square feet of ground-level commercial/retail fronting Harbor Street and was constructed using a single-threaded helix design. The total cost of construction was originally estimated at $9,540,000, with all such amounts provided by proceeds of the 2004 Parking Bonds.

Stockton Events Center Parking Structure. This structure is located in the vicinity of Fremont and Van Buren streets in downtown Stockton. The seven-story parking structure provides approximately 600 parking spaces on the north shore of the Stockton Channel to accommodate sports fans, concert goers, and event attendees. The structure has approximately 7,500 square feet of ground-level commercial/retail fronting Fremont Street and was constructed using a single-threaded helix design. The total cost of construction was originally estimated at $9,595,000, with all such amounts provided by proceeds of the 2004 Parking Bonds.

Market Street Garage. This structure is located within the City's Central Parking District on Market Street between Sutter and California Streets and was constructed in 1989. The four-story parking structure provides approximately 780 parking spaces and provides both monthly parking for employees of downtown businesses and hourly parking for patrons of downtown businesses. The structure also houses the Central Parking District management offices.

127. **Parking Structure Lease Out** has the meaning set forth in the definition of Parking Structure Lease Back Transaction.

128. **Parking Structure Properties** has the meaning set forth in the definition of Parking Structure Lease Back Transaction.

129. **Pendency Plan** means the budget adopted by the City Council on June 26, 2012, and its subsequent versions, under which the City has operated during the Chapter 9 Case.

130. **Pension Obligation Bonds** means the City of Stockton 2007 Taxable Pension Obligation Bonds issued on April 5, 2007 in the aggregate principal amount of $125,310,000 pursuant to articles 10 and 11 (commencing with section 53570) of chapter 3 of part 1 of division 2 of title 5 of the Government Code of the State of California and an Indenture of Trust, dated as of April 1, 2007, by and between the City and Wells Fargo, as trustee (together with any successor trustee, the "**Pension Obligation Bonds Trustee**"), to refinance the obligation of the City to make payments to CalPERS for retirement benefits accruing to the City's employees and retirees. The Pension Obligation Bonds are not secured by any pledge of revenues or other collateral support. They are insured by Assured Guaranty.

131. **Pension Obligation Bonds Claims** means the Claims of Assured Guaranty in connection with the Pension Obligation Bonds, as insurer of the Pension Obligation Bonds.

132. **Pension Obligation Bonds Trustee** has the meaning set forth in the definition of Pension Obligation Bonds.

133. **Petition Date** means June 28, 2012.

134. **Plan** means this Plan of Adjustment of Debts, together with any exhibits, each in their present form or as they may be altered, amended or modified from time to time in accordance with the provisions of this Plan, the Confirmation Order, the Bankruptcy Code, and the Bankruptcy Rules.

135. **Plan Document** means any agreement or instrument contemplated by, or to be entered into pursuant to, this Plan, that is in form and substance acceptable to the City, has been duly and validly executed and delivered, or deemed executed by the parties thereto, and for which all conditions to its effectiveness have been satisfied or waived.

136. **Plan Financial Projections** mean the financial projections set forth in the Long-Range Financial Plan of City of Stockton, attached as Exhibit B to the Disclosure Statement.

137. **Plan Solicitation Order** means the Order Approving (1) Adequacy of Information in Disclosure Statement with Respect to the City's Plan of Adjustment; (2) Form, Scope and Nature of Solicitation, Balloting, Tabulation and Notices with Respect Thereto; and (3) Related Confirmation Procedures, Deadlines and Notices, by which the Bankruptcy Court on [__________] approved the Disclosure Statement as containing adequate information for the purpose of dissemination and solicitation of votes on and confirmation of this Plan and established certain rules, deadlines, and procedures for the solicitation of votes with respect to and the balloting on this Plan.

138. **Pledged Tax Increment** has the meaning set forth in the definition of Arena Lease Back Transaction.

139. **Ports License Agreement** means that certain "Events Center Ball Park License Agreement" dated as of March 2, 2004, between the City and 7th Inning Stretch, LLC regarding the terms and conditions upon which the Stockton Ports baseball team may use the Banner Island Ballpark located next to the Arena in downtown Stockton.

140. **Pre-Confirmation Date Claims** shall have the meaning ascribed to such phrase in Section XI(A).

141. **Price Claims** mean the Claims of the Price Judgment Creditors, who filed a proof of claim in the Chapter 9 Case in the amount of $1,423,164.

142. **Price Judgment Creditors** mean Richard Price and five other low-income individuals who were displaced from single-room-occupancy housing units in downtown Stockton in connection with the City's code-enforcement activities, and the Interfaith Council of San Joaquin (formerly Stockton Metro Ministry Inc.), who collectively filed an action against the City, the Redevelopment Agency, and other parties on May 2, 2002, captioned as *Price, et al. v. City of Stockton, et al.*, US District Court for the Eastern District of California, case no. 2:02-cv-00065-LKK-KJM. In their complaint, the Price Judgment Creditors alleged that the defendants had violated certain state and federal redevelopment, relocation assistance, and fair housing laws. The parties settled the action pursuant to a settlement agreement, dated as of January 9, 2006. *See* Exhibit B to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed in the Chapter 9 Case on November 29, 2012 [Dkt. No. 628]. On January 12, 2006, the District Court entered judgment against the defendants pursuant to this settlement agreement. *See* Exhibit C to Declaration of Hilton S. Williams in Support of Motion for Relief from Stay, filed on November 29, 2012 in the Chapter 9 Case [Dkt. No. 628]. Among other things, the judgment obligated the City to construct low-income housing and to establish a restricted fund in the amount of approximately $1.45 million for distribution by a special master over a five-year period to persons displaced by the City's activities.

143. **Professional Claim** means a Claim required to be filed pursuant to Section II(B) of the Plan for approval of amounts, if any, to be paid after the Effective Date for services or expenses in the Chapter 9 Case or incident to this Plan.

144. **Redevelopment Agency** means the Redevelopment Agency of the City of Stockton, and as the context requires, the City acting solely in its role as the successor agency after the dissolution of the Redevelopment Agency of the City of Stockton.

145. **Rejection Motion** means one or more motion to be filed by the City pursuant to section 365(a) by which the City shall seek approval and authorization for the rejection of such executory contracts and unexpired leases as shall be identified in the Rejection Motion.

146. **Restricted Funds** means the approximately 200 special purpose and enterprise funds administered by the City, the use of which is restricted by, among other things, grants, federal law, the California Constitution, or other California law, such that the assets of the Restricted Funds may not lawfully be used to pay obligations of the General Fund. Among the uses of the assets in the Restricted Funds is payment of the Restricted Revenue Bond and Note Payable Obligations.

147. **Restricted Revenue Bond and Note Payable Obligations** means, collectively, (i) City of Stockton Revenue Certificates of Participation 1998 Series A (Wastewater

System Project); City of Stockton Certificates of Participation 2003 Series A (Wastewater System Project); Stockton Public Financing Authority 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Project); Stockton Public Financing Authority Water Revenue Bonds, Series 2009A (Tax Exempt) (Delta Water Supply Project) & Series 2009 B (Taxable Build America Bonds); Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project); and (ii) Special Assessment and Special Tax Obligations.

148. **Retiree Health Benefit Claim** means a Claim by a former City employee on account of or in any way related to the City's postpetition reduction of its contribution to health benefit payments to former City employees.

149. **Retiree Health Benefit Claimant** means a former City employee who was eligible for retiree health benefits based on his or her collective bargaining agreement at the time of retirement and: (a) who was receiving City retiree health benefits as of June 30, 2012 (which includes any retiree who had waived coverage prior to that date but was otherwise eligible, or any retiree who had exceeded the 15-year cap for under-65 retiree health benefits, but who was eligible for a City retiree benefit for an over-65 retiree); or (b) who retired prior to July 1, 2012 with his or her last day on payroll having occurred before June 30, 2012; or (c) who was a surviving spouse of a deceased retiree who was receiving retiree benefits on June 30, 2012.

150. **Retirees Committee** means the Official Committee of Retirees, appointed in the Chapter 9 Case on April 1, 2013 [Dkt. No. 846], by the Office of the United States Trustee pursuant to sections 1102(a)(1) and 1102(b)(1), as the membership thereof may have been reconstituted from time to time by the Office of the United States Trustee.

151. **Retirees Settlement** means the agreement between the City and the Retirees Committee by which the City agrees to propose a plan of adjustment containing the provisions set forth in the Retirees Settlement.

152. **Rights of Action** means any rights, claims, or causes of action owned by, accruing to, or assigned to the City pursuant to the Bankruptcy Code or pursuant to any contract, statute, or legal theory, including without limitation any rights to, claims, or causes of action for recovery under any policies of insurance issued to or on behalf of the City.

153. **Risk Management Internal Service Fund** means the fund established by the City to accumulate resources for interdepartmental charges expended on self insurance for General Liability Claims. The City also has other internal service funds.

154. **Rust Omni** means Rust Consulting/Omni Bankruptcy, the Ballot Tabulator in the Chapter 9 Case.

155. **SCC 16** means Stockton City Center 16, LLC, a California limited liability company.

156. **SCC 16 Secured Claims** means any Claim of SCC 16 arising out of that certain "Agreement Regarding Construction Costs" dated as of April 29, 2008, among SCC 16, the City, and the Redevelopment Agency, relating to the City's obligation to reimburse SCC 16 for construction costs paid by SCC 16 that the City was otherwise liable to pay, for the construction of improvements to certain premises located in the Edmund S. Coy Parking Structure to be leased by SCC 16, to the extent than any such Claim is secured by the right to offset rent and any other monies owing from SCC 16 to the City.

157. **SCC 16 Settlement** means that certain settlement between the City, the 2004 Parking Structure Bond Trustee, and SCC 16, regarding the SCC Secured Claims and certain other matters, as set forth in that certain "Settlement Agreement and Mutual Release" dated as of September [__], 2013, and attached hereto as **Exhibit E** [if finalized] and incorporated by reference (the "**SCC 16 Settlement Agreement**"). While the SCC 16 Settlement Agreement should be consulted for the precise terms of the SCC 16 Settlement, in general the SCC 16 Settlement provides for [to be inserted if and when settlement is finalized].

158. **SCC 16 Settlement Agreement** has the meaning set forth in the definition of SCC 16 Settlement.

159. **SEB Claims of the 2006 SEB Bond Trustee/NPFG** means any Claims arising under the SEB Lease Back or the SEB Lease Out, if any. The City believes that no such

Claims will exist after assumption of the SEB Lease Back and SEB Lease Out pursuant to an appropriate assumption motion.

160. **<u>SEB Lease Back</u>** has the meaning set forth in the definition of SEB Lease Back Transaction.

161. **<u>SEB Lease Back Rental Payments</u>** has the meaning set forth in the definition of SEB Lease Back Transaction.

162. **<u>SEB Lease Back Transaction</u>** means the transaction described as follows:

> ***Financial Instruments Involved***. The financial instruments involved in this transaction are the Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A, issued on April 6, 2006, in the aggregate principal amount of $13,965,000 (the "**<u>2006 SEB Bonds</u>**"). Wells Fargo is the indenture trustee under the 2006 SEB Bonds Indenture (together with any successor trustee, the "**<u>2006 SEB Bond Trustee</u>**"). A reserve fund exists for the 2006 SEB Bonds in the amount of the initial reserve requirement, funded by a surety policy provided by the insurer, in the amount of $919,093.75 (the "**<u>2006 SEB Bond Reserve Fund</u>**"). The funds in the 2006 SEB Bond Reserve Fund are pledged to support repayment of the 2006 SEB Bonds. The 2006 SEB Bonds are insured by NPFG.
>
> ***Properties Involved/Leases***. As described in more detail below, the properties that are involved in this transaction are the Stewart/Eberhardt Building and the adjacent parking facility (the "**<u>SEB Properties</u>**"). In order to facilitate the financing to be provided by the 2006 SEB Bonds, the City, as owner of the SEB Properties, leased the properties to the Financing Authority pursuant to that certain Ground Lease dated as of March 1, 2006, for a term ending on August 1, 2031, with a possible extension of the term to the date upon which the 2006 SEB Bonds are paid in full, but in any event no later than August 1, 2041 (the "**<u>SEB Lease Out</u>**"). The City contemporaneously leased the SEB Properties back from the Financing Authority for the same number of years pursuant to the terms of the

Lease Agreement dated as of March 1, 2006 (the "**SEB Lease Back**"). Thus, the City is the lessor and the Financing Authority is the tenant under the SEB Lease Out, and the Financing Authority is the lessor and the City is the tenant in the SEB Lease Back.

As tenant under the SEB Lease Out, the Financing Authority paid rent for the entire lease term in the amount of $1.00. As tenant under the SEB Lease Back, the City agreed to make semi-annual rental payments in varying amounts ($907,494 for fiscal year 2012-13, $906,194 for fiscal year 2013-14, $909,194 for fiscal year 2014-15, etc.) (the "**SEB Lease Back Rental Payments**"). The Financing Authority assigned to the 2006 SEB Bond Trustee its rights under the SEB Lease Back, including the rights to enforce the lease after default by the City, and including the stream of SEB Lease Back Rental Payments from the City, to support the repayment of the 2006 SEB Bonds. No other revenues or assets are pledged to support the repayment of the 2006 SEB Bonds, the repayment obligation is non-recourse to the Financing Authority, and the 2006 SEB Bonds are payable solely from the 2006 SEB Bond Reserve Fund and the SEB Lease Back Rental Payments. The City is not in default under the SEB Lease Back, and to date all amounts due on the 2006 SEB Bonds have been paid in full and on time.

Leased Properties. The subject properties consist of the Stewart/Eberhardt Building (the "**Eberhardt Building**") located at 22 East Weber Avenue and the adjacent public parking facility located at 15 North El Dorado Street in downtown Stockton, both of which continue to be owned by the City (subject to the SEB Lease Out to the Financing Authority and the SEB Lease Back from the Financing Authority) (as described below, the "**SEB Properties**").

Stewart/Eberhardt Building. The Eberhardt Building is a four-story, 99,792 square foot, steel and precast concrete-clad office building constructed in 2001. It was designed to meet the standards for, and is certified as, an Essential Services Building, as defined in the Essential Services Buildings Seismic Safety Act of 1986, commencing with section 16000 of the California Health and Safety Code. It currently houses several city departments including Human Resources, Police Investigations, Public Works, and the Police Crime Lab.

SEB Public Parking Facility. The SEB public parking facility is a 284,420-square-foot, eight-level, reinforced masonry and cast-in-place concrete structure with approximately 780 parking spaces. Constructed in 2001, it also includes approximately 7,000 square feet for Police Department property storage and a "sally port" exclusively for Police Department functions on the ground floor.

163. **SEB Lease Out** has the meaning set forth in the definition of SEB Lease Back Transaction.

164. **SEB Properties** has the meaning set forth in the definition of SEB Lease Back Transaction.

165. **Secured Claim** means a Claim that is secured, in whole or in part, (a) by a lien that is not subject to avoidance or subordination under the Bankruptcy Code or applicable non-bankruptcy law; or (b) as a result of rights of setoff under section 553; but in any event only to the extent of the value, determined in accordance with section 506(a), of the holder's interest in the City's interest in property or to the extent of the amount subject to such setoff, as the case may be.

166. **SIR Claim Portion** means the portion of a Workers Compensation Claim or General Liability Claim subject to the City's self insurance retention. For any resolved Workers Compensation Claim, the SIR Claim Portion is the first $500,000. For any resolved General Liability Claim, the SIR Claim Portion is the first $1,000,000. The SIR Claim Portion is an obligation of the City rather than an obligation of any excess risk-sharing pool of which the City is a member.

167. **Special Assessment and Special Tax Obligations** means, collectively: Stockton Public Financing Authority Reassessment Revenue Bonds (Arch Road and Stockton Business Park Assessment Districts) Series 1998; City of Stockton Camera Estates Community Facilities District No. 2003-1 Special Tax Bonds, Series 2003; City of Stockton Limited Obligation Improvement Bonds March Lane/Holman Assessment District 2003-1; City of Stockton Limited Obligation Improvement Bonds Mosher Assessment District 2003-02; City of Stockton Limited Obligation Improvement Bonds Waterford Estates East Phase II Assessment District 2003-03; Stockton Public Financing Authority Refunding Revenue Bonds (West Eighth Street Reassessment District); City of Stockton South Stockton Community Facilities District No. 90-1 2005 Special Tax Refunding Bonds; Stockton Public Financing Authority Refunding Revenue Bonds (2005 Assessment Districts Refinancing) Series A Senior Lien Bonds and Series B Subordinate Lien Bonds; City of Stockton Community Facilities District No. 90-2 (Brookside Estates) 2005 Special Tax Refunding Bonds; City of Stockton Community Facilities District No. 1 (Weston Ranch) Special Tax Refunding Bonds, Series 2006; City of Stockton Spanos Park West Community Facilities District No. 2001-1 Special Tax Refunding Bonds, Series 2006; City of Stockton Community Facilities District No. 2006-1 (Riverbend) Special Tax Bonds, Series 2006; City of Stockton Community Facilities District No. 2006-3 (Northbrook) Woodside Improvement Area 1 Special Tax Bonds, Series 2007.

168. **SPOA** means the Stockton Police Officers' Association.

169. **SPOA Claims** means the Claims of members of the SPOA in the approximate amount of $13 million included in and resolved under the SPOA MOU by, in general, allowing such members a total of 44 additional hours of paid leave time through fiscal year 2014-15.

170. **SPOA MOU** means the Memorandum of Understanding between the City and the SPOA effective July 1, 2012, through June 30, 2014, as approved by the City.

171. **Successor Agency** means the City, in its capacity as Successor Agency to the Redevelopment Agency of the City.

172. **Thunder Claims** means the Claims arising in connection with the Thunder License Agreement, as modified by the Thunder Settlement.

173. **Thunder License Agreement** means that certain agreement dated as of March 2, 2004, titled "Team Lease for Stockton Events Center (Ice Hockey Team)" between the City and IFG-Stockton Franchise Group, Inc. as the same may have been amended from time to time, relating to the rights of the Stockton Thunder ice hockey team to use the facilities of the Arena.

174. **Thunder Settlement** means that certain settlement between the City and SC Hockey Franchise Corporation, as successor to IFG-Stockton Franchise Group, Inc., regarding the treatment under this Plan of the claims arising out of the Thunder License Agreement as set forth in that certain "Term Sheet - Proposed, Amendments to Team Lease For Stockton Events Center" dated as of September 17, 2013, and attached hereto as **Exhibit F** [to be attached] and incorporated by reference (the "**Thunder Settlement Term Sheet**"). The Thunder Settlement is summarized as follows (the Thunder Settlement Term Sheet needs to be consulted for the precise terms of the Thunder Settlement): [summary to be provided].

175. **Thunder Settlement Term Sheet** has the meaning set forth in the definition of Thunder Settlement.

176. **Unclaimed Property** shall have the meaning ascribed to such phrase in Section IX(C)(2).

177. **Unimpaired** means a Claim that is not Impaired within the meaning of section 1124.

178. **Uninsured Portion Claim** means the amount in excess of the Insured Portion of an Allowed Workers Compensation Claim or an Allowed General Liability Claim that is covered by one or more of the excess risk-sharing pools of which the City is a member.

179. **Unsecured Claim Payout Percentage** means the percentage of the Allowed Amount of General Unsecured Claims that will be paid to holders of Class 12 Claims, equal to the percentage paid on account of the Retiree Health Benefit Claims (unless the amount of the Retiree Health Benefit Claims changes, that percentage will be \$5,100,000/\$538,000,000 =

0.94796%), or such other amount as is determined by the Bankruptcy Court before confirmation of this Plan to constitute a pro-rata payment on such other General Unsecured Claims; *provided, however*, the dollar amount to be paid shall not exceed in the aggregate $_______; and *provided further*, if such amount is in excess of $_________, the City retains the right to and intends to modify this Plan to provide alternative treatment to such General Unsecured Claims, which alternative treatment may involve payment over a number of years on account of such General Unsecured Claims.

180. **Wells Fargo** means Wells Fargo Bank, National Association, acting solely in its role as bond trustee under the bond indenture agreements referenced herein.

181. **West End Project Area** has the meaning set forth in the definition of Arena Lease Back Transaction.

182. **Workers Compensation Claims** means those Claims pursuant to California workers compensation law (California Labor Code section 3200 *et seq.*) of current and former City employees who have suffered an eligible injury while employed by the City

183. **Workers Compensation Internal Service Fund** means the fund established by the City to accumulate resources for interdepartmental charges expended on self insurance for Workers Compensation Claims.

B. Rules of Construction.

The following rules of construction apply to this Plan: (a) unless otherwise specified, all references in this Plan to "sections" (lowercased) are references to a section of the Bankruptcy Code; (b) unless otherwise specified, all references in this Plan to "Sections" and "Exhibits" (uppercased) are to the respective Section in or Exhibit to this Plan, as the same may be amended or modified from time to time; (c) the headings in this Plan are for convenience of reference only and do not limit or otherwise affect the provisions of this Plan; (d) words denoting the singular number include the plural number and vice versa; (e) the rules of construction set forth in section 102 apply; (f) in computing any period of time prescribed or allowed by this Plan, the provisions of Bankruptcy Rule 9006(a) apply; and (g) the words "herein," "hereof," "hereto," "hereunder," and others of similar import refer to this Plan as a whole and not to any particular section, subsection, or clause contained in this Plan.

II. TREATMENT AND DEADLINE FOR THE ASSERTION OF ADMINISTRATIVE CLAIMS AND PROFESSIONAL CLAIMS

A. Treatment of Administrative Claims.

Except to the extent that the holder of an Allowed Administrative Claim agrees to a different treatment, the City or its agent shall pay to each holder of an Allowed Administrative Claim, in full satisfaction, release, and discharge of such Claim, Cash in an amount equal to such Allowed Administrative Claim on the later of (i) the Effective Date or (ii) the date on which such Claim becomes an Allowed Administrative Claim, or as soon thereafter as is practicable.

B. Treatment of Professional Claims.

Pursuant to section 943(a)(3), all amounts paid following the Effective Date or to be paid following the Effective Date for services or expenses in the Chapter 9 Case or incident to this Plan must be disclosed to the Bankruptcy Court and must be reasonable. There shall be paid to each holder of a Professional Claim, in full satisfaction, release, and discharge of such Claim, Cash in an amount equal to that portion of such Claim that the Bankruptcy Court approves as reasonable, on or as soon as reasonably practicable following the date on which the Bankruptcy Court enters a Final Order determining such reasonableness. The City, in the ordinary course of its business, and without the requirement for Bankruptcy Court approval, may pay for professional services rendered and costs incurred following the Effective Date.

C. Priority Claims in Chapter 9.

The only priority claims incorporated into chapter 9 through section 901 are Administrative Claims allowed under section 503(b) and entitled to priority under section 507(a)(2). The treatment of all such Administrative Claims is set forth immediately above in Sections II(A) and II(B). No other kinds of priority claims set forth in section 507 are recognized in chapter 9 cases, and Claims that are not Administrative Claims herein and that would constitute administrative claims in a case under another chapter of the Bankruptcy Code are treated in chapter 9 and in this Plan as General Unsecured Claims.

D. Deadline for the Filing and Assertion of Other Postpetition Claims, Administrative Claims and Professional Claims.

All proofs of claim for Other Postpetition Claims arising on or after August 16, 2013,[4] and requests for payment or any other means of preserving and obtaining payment of Administrative Claims that have not been paid, released, or otherwise settled, and all requests for approval of Professional Claims, must be filed with the Bankruptcy Court and served upon the City no later than 30 days after the date on which the Notice of Effective Date is mailed. Any proof of claim for Other Postpetition Claims, or request for payment of an Administrative Claim or a Professional Claim, that is not timely filed by such date will be forever barred, and holders of such Claims shall be barred from asserting such Claims in any manner against the City.

III. DESIGNATION OF CLASSES OF CLAIMS

Pursuant to sections 1122 and 1123(a)(1), all Claims other than Administrative Claims and Professional Claims are classified for all purposes, including voting, confirmation, and distribution pursuant to this Plan, as follows:

Class 1A – Claims of Ambac – 2003 Fire/Police/Library Certificates;

Class 1B – Claims of Holders of 2003 Fire/Police/Library Certificates;

Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG;

Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFG;

Class 4 – Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG – 2004 Parking Structure Bonds;

Class 5 – Office Building Claims of the 2007 Office Building Bond Trustee/Assured Guaranty – 2007 Office Building Bonds; [separate classification necessary only if Assured Settlement is finalized]

[4] Proofs of claim for Other Post-Petition Claims that arose before August 16, 2013 must have been filed by August 16, 2013 in order to be considered timely. *See* Order (1) Fixing August 16, 2013 Bar Date For All Claims Other Than Claims Based On Retiree Health Benefits And The Rejection Of Executory Contracts Or Unexpired Leases; (2) Fixing September 30, 2013 Bar Date For Claims Of Governmental Units; (3) Approving Form Of Notice Of Bar Dates; And (4) Requiring City To Publish And Transmit Notice Of Bar Date To Creditors And Parties In Interest By No Later Than June 28, 2013 [Dkt. No. 960].

Class 6 – Pension Obligation Bonds Claims of Assured Guaranty; [separate classification necessary only if Assured Settlement is finalized]

Class 7 – Claims of DBW;

Class 8 – SCC 16 Secured Claims;

Class 9 – Thunder Claims;

Class 10 – Claims of Holders of Restricted Revenue Bond and Note Payable Obligations;

Class 11 – Claims of the Holders of Special Assessment and Special Tax Obligations;

Class 12 – General Unsecured Claims.

This class includes:

- General Unsecured Claims;
- the Claims of Dexia under the Office Building Standby Agreement;
- the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin;
- the Retiree Health Benefit Claims;
- the Leave Buyout Claims;
- the Price Claims; and
- Other Postpetition Claims.

Class 13 – Convenience Class Claims;

Class 14 – Claims of Certain Tort Claimants;

Class 15 – Claims of CalPERS with Respect to the CalPERS Pension Plan, as Trustee under the CalPERS Pension Plan for the Benefit of CalPERS Pension Plan Participants;

Class 16 – Claims of Equipment Lessors;

Class 17 – Workers Compensation Claims; and

Class 18 – SPOA Claims.

IV. TREATMENT OF CLAIMS

A. Class 1A – Claims of Ambac – 2003 Fire/Police/Library Certificates.

1. Impairment and Voting.

Class 1A is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of Ambac, the holder of the Claims. Accordingly, this Class is entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

On February 26, 2013, the City filed a motion with the Bankruptcy Court in which it requested the Bankruptcy Court to enter an order approving the Ambac Settlement Agreement [Dkt. No. 723]. A copy of the Ambac Settlement Agreement is attached as Exhibit A to the Declaration of Robert Deis in Support of the City of Stockton's Motion Under Bankruptcy Rule 9019 for Approval of Its Settlement with Ambac Assurance Corporation, filed on February 26, 2013 [Dkt. No. 725]. On April 24, 2013, the Bankruptcy Court entered its order granting the Ambac Settlement Agreement Motion in its entirety and approving the Ambac Settlement Agreement in its entirety [Dkt. No. 888].

Among other things, the Ambac Settlement Agreement restructures the City's obligations under the 2003 Fire/Police/Library Certificates and provides additional liquidity for the City. The salient terms of the Ambac Settlement Agreement are summarized below.[5]

a. Forbearance. Subject to the express provisions of the Ambac Settlement Agreement, Ambac and the 2003 Fire/Police/Library Certificates Trustee agree to forbear from exercising their rights and remedies under the Fire/Police/Library Lease Back and the 2003 Fire/Police/Library Certificates Trust Agreement. The agreement to forbear is conditioned upon and subject to the following conditions of forbearance:

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[5] This summary is presented for convenient reference by the Court and parties in interest, but is not intended as a complete or exhaustive description of all terms of the Ambac Settlement Agreement, which is the definitive and controlling document. To the extent that there is any discrepancy between the terms as stated in this Plan and the terms as stated in the Ambac Settlement Agreement, the terms of the Ambac Settlement Agreement prevail.

(1) General Fund Payments. The City shall make General Fund Payments (as defined in the Ambac Settlement Agreement) in an amount equal to the lesser of (A) the amounts set forth in the General Fund Payment Schedule (as defined in the Ambac Settlement Agreement), or (B) the amount equal to the difference between the stated principal and interest payments on the 2003 Fire/Police/Library Certificates due on each Payment Date (as defined in the Ambac Settlement Agreement) and the amount available to the City pursuant to section 5.04, clauses 1 and 2(d)(ii) of the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement and section 2.7 of the Ambac Settlement Agreement to be applied to the payment of the 2003 Fire/Police/Library Certificates.

The General Fund Payments shall be paid by the City directly to the 2003 Fire/Police/Library Certificates Trustee; provided that from and after the date on which the 2003 Fire/Police/Library Certificates holders (other than Ambac) are paid in full, the General Fund Payments shall be paid by the City directly to Ambac for its own account as reimbursement for amounts owing to Ambac on account of the Ambac Payments (as defined in the Ambac Settlement Agreement) and the payment of legal fees pursuant to section 6.8 of the Ambac Settlement Agreement, together with interest thereon, pursuant to section 2.8 of the Ambac Settlement Agreement. At such time as all 2003 Fire/Police/Library Certificates and Ambac Payments have been paid in full, no further General Fund Payments shall be payable.

(2) Assignment of 2003 Fire/Police/Library Certificates Reimbursement Agreement. As additional security for the payments by Ambac pursuant to the Ambac Insurance Policy, as of the Ambac Effective Date, all of the City's rights, title and interest under the 2003 Fire/Police/Library Certificates Reimbursement Agreement, including the right to the Housing Set-Aside Amounts (as defined in the 2003 Fire/Police/Library Certificates Reimbursement Agreement) shall be automatically pledged and collaterally assigned to the 2003 Fire/Police/Library Certificates Trustee which Housing Set-Aside Amounts shall later be assigned to the 2003 Fire/Police/Library Certificates Trustee in accordance with the terms of the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement.

(3) Application of Housing Set-Aside Amounts. In accordance with the terms of the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement, the Housing Set-Aside Amounts shall be applied (A) to the scheduled payment of amounts due on all 2003 Fire/Police/Library Certificates then due and payable from the Ambac Effective Date until the date all monies in the 2003 Fire/Police/Library Certificates Reserve Fund that existed as of the Ambac Effective Date are exhausted; (B) after all monies in the 2003 Fire/Police/Library Certificates Reserve Fund as of the Ambac Effective Date are exhausted pursuant to Section 2.7 of the Ambac Settlement Agreement in the following order and priority: (1) to the scheduled payment of all 2003 Fire/Police/Library Certificates then due and payable, in an amount equal to 19.5% of such scheduled payment; (2) to Ambac, to repay any payments made by Ambac under the Ambac Insurance Policy to the registered owners of the 2003 Fire/Police/Library Certificates, with interest as required by section 2.8 of the Ambac Settlement Agreement; (3) to Ambac and the 2003 Fire/Police/Library Certificates Trustee, to repay any payments made by Ambac for fees and expenses including attorney's fees and expenses of Ambac and the 2003 Fire/Police/Library Trustee, with interest as required by section 6.8 of the Ambac Settlement Agreement; (4) on-parity dollar-for-dollar basis to (i) the 2003 Fire/Police/Library Certificates Reserve Fund, in the amount necessary to make the balance therein equal the Reserve Requirement (as defined in the 2003 Fire/Police/Library Certificates Trust Agreement), and (ii) the payment of the scheduled payment of all 2003 Fire/Police/Library Certificates then due and payable as a credit to the City for General Fund Payment; and (5) to the City to reimburse the City for any General Fund Payments previously paid and to the extent the City has been fully reimbursed for all such General Fund Payments (with interest to the extent permitted by the 2003 Fire/Police/Library Certificates Reimbursement Agreement), for deposit by the City to the Community Redevelopment Property Trust Fund (as defined in the Ambac Settlement Agreement).

(4) Extension of Fire/Police/Library Lease Back Term. As of the Ambac Effective Date, the City and Financing Authority agree that the term of the Fire/Police/Library Lease Back is extended until September 5, 2048 or such later date until all

amounts owing to the 2003 Fire/Police/Library Certificates holders and Ambac under the Ambac Settlement Agreement have been paid in full.

b. Debt Service Reserve Fund. The 2003 Fire/Police/Library Certificates Trustee agrees to apply monies in the 2003 Fire/Police/Library Certificates Reserve Fund as exists as of the Ambac Effective Date to pay principal of and interest on the 2003 Fire/Police/Library Certificates commencing with the payment due on September 1, 2013 in the amount necessary to pay debt service on the 2003 Fire/Police/Library Certificates minus amounts available from Housing Set-Aside Subaccount of the Lease Payment Fund (as defined in the 2003 Fire/Police/Library Certificates Trust Agreement) established pursuant to the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement until the 2003 Fire/Police/Library Certificates Reserve Fund is exhausted. Amounts so applied from the 2003 Fire/Police/Library Certificates Reserve Fund shall be a credit against the General Fund Payments due from the City under the Ambac Settlement Agreement. Replenishment of the 2003 Fire/Police/Library Certificates Reserve Fund to the Reserve Requirement will take place with excess Housing Set-Aside Amounts paid pursuant to the 2003 Fire/Police/Library Certificates Reimbursement Agreement as set forth in the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement.

c. Successor Agency Sale Proceeds. The City shall cause the Successor Agency to work with Ambac to agree upon a list of all properties (i) which will be sold by the Successor Agency, or (ii) to be transferred to the Community Redevelopment Property Trust Fund of the Successor Agency and sold pursuant to the long-range property management plan developed and authorized in accordance with the applicable sections of the Health and Safety Code. The City and Ambac will, and the City shall cause the Successor Agency to, use their best efforts to obtain written approval of the long-range property management plan developed by the Successor Agency and approved by Ambac prior to submission which will provide, among other things, that all of the proceeds from the sale of the properties be used to satisfy outstanding obligations under the bonds of the Successor Agency and 2003 Fire/Police/Library Certificates Reimbursement Agreement in accordance with the existing priorities under applicable law prior to any distribution of such proceeds to taxing agencies under the Health and Safety Code. The City shall, and the City shall cause the Successor Agency to, diligently pursue the sales of the properties in accordance with applicable law and shall provide Ambac and the 2003 Fire/Police/Library Certificates Trustee with a written monthly report of all progress and activity taken in connection with such sales.

d. Plan Support Commitment. From and after the entry into the Ambac Settlement Agreement, and provided that (i) the Bankruptcy Court has entered the Approval Order, and (ii) the City has complied with its covenants and obligations under the Ambac Settlement Agreement, Ambac will support the Plan and take such action as is reasonably necessary to support confirmation and consummation of the Plan which provides for separate classification of the Claims of Ambac and the 2003 Fire/Police/Library Certificates holders with respect to the 2003 Fire/Police/Library Certificates into two classes; each class shall provide for all Claims of Ambac and the 2003 Fire/Police/Library Certificates holders to be satisfied through the City's recognition and performance of its obligations under the Ambac Settlement Agreement. Ambac in its capacity as insurer and sole owner of all 2003 Fire/Police/Library Certificates pursuant to the 2003 Fire/Police/Library Trust Agreement agrees to vote for such Plan. Subject to the terms and conditions of the Ambac Settlement Agreement, the Plan will affirm that the Fire/Police/Library Lease Back, 2003 Fire/Police/Library Certificates Trust Agreement, Fire/Police/Library Lease Out and 2003 Fire/Police/Library Certificates Reimbursement Agreement shall be assumed and remain in full force and effect.

e. Reimbursement of Attorneys' Fees. The City shall reimburse Ambac and the 2003 Fire/Police/Library Certificates Trustee for the fees and expenses of Ambac and 2003 Fire/Police/Library Certificates Trustee, including attorney's fees and expenses incurred in connection with the 2003 Fire/Police/Library Certificates and the Chapter 9 Case (i) in relation to Ambac, accrued through the date of execution and delivery of the Ambac Settlement Agreement in the amount of $240,000, and (ii) in relation to Ambac and 2003 Fire/Police/Library Certificates Trustee accrued from the date of the execution and delivery of the Ambac Settlement Agreement through the effective date of the Plan (the "**Outstanding Fees and Expenses**") through application of Housing Set-Aside Amounts paid pursuant to the 2003 Fire/Police/Library Certificates Reimbursement Agreement as set forth in section 5.04 of the 2003 Fire/Police/Library Certificates Trust Agreement. The 2003 Fire/Police/Library Certificates Trustee and Ambac shall submit invoices to the City relating to the Outstanding Fees and Expenses specified in (ii) herein on a monthly basis. Interest will accrue on the Outstanding Fees and Expenses at an interest rate of 8% compounded annually. The City and the Financing Authority will be obligated to pay ongoing 2003 Fire/Police/Library Certificates Trustee fees and expenses as required under the 2003 Fire/Police/Library Certificates Trust Agreement and Fire/Police/Library Lease Back.

f. Approval and Authorization to enter into the Ancillary Documents.

(1) 2003 Fire/Police/Library Certificates Supplemental Trust Agreement. On the Ambac Effective Date, the City, the Financing Authority and the 2003 Fire/Police/Library Certificates Trustee shall be authorized to and shall enter into the 2003 Fire/Police/Library Certificates Supplemental Trust Agreement.

(2) Fire/Police/Library Lease Out Assignment Agreement. On the Ambac Effective Date, the Financing Authority and the 2003 Fire/Police/Library Certificates Trustee shall be authorized to and shall enter into Fire/Police/Library Lease Out Assignment Agreement and the City shall be authorized to and shall acknowledge and consent thereto.

B. Class 1B – Claims of Holders of 2003 Fire/Police/Library Certificates.

1. Impairment and Voting.

Class 1B is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 1B claimants, the 2003 Fire/Police/Library Certificates holders, is identical to the treatment of Ambac, the Class 1A claimant.

C. Class 2 – SEB Claims of the 2006 SEB Bond Trustee/NPFG – 2006 SEB Bonds.

1. Impairment and Voting.

Class 2 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The City will assume the SEB Lease Back and the SEB Lease Out under section 365(a) pursuant to the Assumption Motion. No later than 60 days after the Effective Date or 60 days after approval of the Lease Assumption Motion, whichever is later, the City will make the payments to the 2006 SEB Bond Trustee necessary to cure past defaults under the SEB Lease Back and the SEB Lease Out, if any, as well as any actual pecuniary loss suffered by the 2006 SEB Bond Trustee as a result of the City's default of the SEB Lease Back and the SEB Lease Out, if any, but, pursuant to the terms if the NPFG Settlement, not any attorneys' fees or other professional expenses incurred by the 2006 SEB Bond Trustee. Further, the finding by the Bankruptcy Court that the Plan is feasible shall constitute adequate assurance of future performance of the SEB Lease Back and the SEB Lease Out.

D. Class 3 – Arena Claims of the 2004 Arena Bond Trustee/NPFG – 2004 Arena Bonds.

1. Impairment and Voting.

Class 3 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 3 Claims will be as set forth in the NPFG Settlement.

E. Class 4 – Parking Structure Claims of the 2004 Parking Bond Trustee/NPFG – 2004 Parking Bonds.

1. Impairment and Voting.

Class 4 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 4 Claims will be as set forth in the NPFG Settlement.

F. Class 5 – Office Building Claims of the 2007 Office Building Bond Trustee/Assured Guaranty – 2007 Office Building Bonds.

1. Impairment and Voting

Class 5 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 5 Claims will be as set forth in the Assured Guaranty Settlement.

G. Class 6 – Pension Obligation Bonds Claims of Assured Guaranty.

1. Impairment and Voting.

Class 6 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 6 Claims will be as set forth in the Assured Guaranty Settlement.

H. Class 7 – Claims of DBW.

1. Impairment and Voting.

Class 7 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The General Fund will have no obligation to pay debt service on this obligation, or to reimburse operating expenses to DBW should DBW take over operations of the Marina Project. DBW will retain its pledge of rents and leases generated from the Marina Project. However, the pledge of gross revenues will be converted to a pledge of revenues net of all reasonable and direct operating expense of the Marina Project, calculated on a fiscal year basis ending June 30 of each year. Should DBW decide to take over operations of the Marina Project, DBW will be responsible for payment of all operating expenses of the Marina Project and the City will have the right to ensure that the Marina Project is operated in a responsible and safe manner, including providing adequate security, and the City shall have the right to compel DBW to alter its manner of operations if such operations pose a threat to the public welfare or if such operations abet a public nuisance. The General Fund shall have no liability, directly or indirectly, for the Claims of DBW, and the City may decide at any time to cease subsidizing the operating deficits of the operation of the Marina Project. DBW has stated to the City an interest in exercising its remedy of taking possession of the Marina Project.

I. Class 8 - SCC 16 Secured Claims.

1. Impairment and Voting.

Class 8 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 8 Claims will be as set forth in the SCC 16 Settlement.

J. <u>Class 9 – Thunder Claims.</u>

1. Impairment and Voting.

Class 9 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The treatment of the Class 9 Claims will be as set forth in the Thunder Settlement.

K. <u>Class 10 – Claims of Holders of Restricted Revenue Bond and Note Payable Obligations</u>.

1. Impairment and Voting.

Class 10 is not Impaired by this Plan since the treatment of this Class will not affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are not entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

Class 10 consists of Claims of the holders of Restricted Revenue Bond and Note Payable Obligations that are secured by special and restricted sources of revenues and are not payable from the General Fund.

<u>Restricted Revenue Bond and Notes Payable Obligations</u>. The City's Restricted Revenue Bond and Notes Payable Obligations are secured by a pledge of and lien on revenues of various of the City's systems and enterprises, which are restricted revenues pursuant to the California Constitution, and are "special revenues" as defined in section 902(2). These revenues are not a part of or available to the General Fund, and the General Fund is not obligated to make any payment on the Restricted Revenue Bond and Notes Payable Obligations. The City may transfer amounts from the restricted revenues to the General Fund only to pay costs which are

incurred by the General Fund to provide the facility or enterprise-related services and which are allocated to the enterprises on a reasonable basis in accordance with the City's accounting and allocation policies. Such transfers are treated by the facility or enterprise as operation and maintenance expenses. The City will continue to apply restricted revenues to pay the Restricted Revenue Bond and Notes Payable Obligations as required by the terms of such obligations.

L. <u>Class 11 – Claims of Holders of Special Assessment and Special Tax Obligations</u>.

1. Impairment and Voting.

Class 11 is not Impaired by this Plan since the treatment of this Class will not affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are not entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

Class 11 consists of Claims of the holders of Special Assessment and Special Tax Obligations that are secured by special and restricted sources of revenues and are not payable from the General Fund.

<u>Special Assessment and Special Tax Obligations</u>. The Special Assessment and Special Tax Obligations are secured by certain special assessments and special taxes levied on specific real property within the respective districts for which these obligations were issued. These special assessment and special tax revenues are legally restricted to the payment of debt service on the Special Assessment and Special Tax Obligations under California statutes and the California Constitution, are "special revenues" as defined in section 902(2), and cannot be used for any other purpose or be transferred to the General Fund. The General Fund is not obligated to pay debt service on the Special Assessment and Special Tax Obligations. The City will continue to apply revenues from the applicable special assessments and special taxes to pay the Special Assessment and Special Tax Obligations as required by the terms of such obligations.

M. <u>Class 12 – General Unsecured Claims</u>.

1. Impairment and Voting.

Class 12 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The major claims in this Class include without limitation: (1) the Retiree Health Benefit Claims; (2) the Claims of Dexia under the Office Building Standby Agreement; (3) the Golf Course/Park Claims of the 2009 Golf Course/Park Bond Trustee/Franklin; (4) the Leave Buyout Claims; (5) the Price Claims; and (6) Other Postpetition Claims.

The Retiree Health Benefit Claims are held by approximately 1,100 of the City's former employees plus their dependents, and the Retirees Committee maintains that the aggregate amount of the Retiree Health Benefit Claims is approximately $538,000,000.[6] Pursuant to the Retirees Settlement, on the Effective Date, the City will pay the Retirees an aggregate amount of $5,100,000 in full satisfaction of Allowed Retiree Health Benefit Claims, and no other retiree health benefits will be provided by the City. If required by state or federal law, the City will withhold from the aggregate $5,100,000 payment any taxes or other deductions to be withheld from the individual payment to each Retiree Health Benefit Claimant. The individual recipient is responsible for any tax liability for this payment, and the City will not provide any advice to any recipient as to the taxable impact of this payment.

All other General Unsecured Claims shall receive cash payment on the Effective Date in the amount equal to a percentage of the Allowed Amount of such Claims, which such percentage equals the Unsecured Claim Payout Percentage, or such other amount as is determined by the Bankruptcy Court before confirmation of this Plan to constitute a pro-rata payment on such

[6] This does not include the retiree health benefit claims of employees employed as of July 1, 2012, who waived their claims of approximately $1 billion of previously earned benefits for no additional compensation, as part of memoranda of understanding negotiated in 2012.

other General Unsecured Claims; *provided*, *however*, the dollar amount to be paid shall not exceed in the aggregate $[________]; and *provided further*, if such amount is in excess of $[__________], the City retains the right to and intends to modify this Plan to provide alternative treatment to such General Unsecured Claims, which alternative treatment may involve payment over a number of years on account of such General Unsecured Claims.

N. Class 13 – Convenience Class Claims.

1. Impairment and Voting.

Class 13 is not Impaired by this Plan since the treatment of this Class will not affect the legal, equitable, or contractual rights of the holders of the Convenience Class Claims, and, accordingly, the holders of the Claims in this Class are not entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

Holders of Convenience Class Claims will receive cash on the Effective Date in the amount of their Allowed Convenience Class Claim, but not to exceed $100.

O. Class 14 – Claims of Certain Tort Claimants.

1. Impairment and Voting.

Class 14 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The SIR Claim Portion of each Allowed General Liability Claim will be paid on the Effective Date from the Risk Management Internal Service Fund, and will receive the same percentage payment on the dollar of Allowed Claim as will the holders of Allowed Class 12 Claims. The Insured Portion of each Allowed General Liability Claim is not Impaired, and shall be paid by the applicable excess risk-sharing pool.

P. Class 15 – Claims of CalPERS with Respect to the CalPERS Pension Plan, as Trustee under the CalPERS Pension Plan for the Benefit of CalPERS Pension Plan Participants.

1. Impairment and Voting.

Class 15 is not Impaired by this Plan because the treatment of this Class will not affect the legal, equitable, or contractual rights of the holder of such Claims, and, accordingly, the holder of the Claims in this Class is not entitled to vote to accept or reject this Plan.

2. Treatment.

The City will continue to honor its obligations to fund employee retirement benefits under the CalPERS Pension Plan, and CalPERS as trustee and the CalPERS Pension Plan Participants retain all of their rights and remedies under applicable nonbankruptcy law. Thus, CalPERS and the CalPERS Pension Plan Participants will be entitled to the same rights and benefits to which they are currently entitled under the CalPERS Pension Plan.[7] CalPERS, pursuant to the CalPERS Pension Plan, will continue to be made available to provide pension benefits for participants in the manner indicated under the provisions of the CalPERS Pension Plan and remedies under applicable nonbankruptcy law.

Q. Class 16 – Claims of Equipment Lessors.

1. Impairment and Voting.

Class 16 is not Impaired by this Plan because the treatment of this Class will not affect the legal, equitable, or contractual rights of the holder of such Claims, and, accordingly, the holders of the Claims in this Class is not entitled to vote to accept or reject this Plan.

[7] As a result of negotiated labor contracts that changed certain pension provisions, as well as changes in state law, pension benefits for new hires effective January 2013 have been reduced by 50-70% (including loss of retiree health benefits) and in some cases higher for some types of new hires; new hires are also required to pay a greater share of their future pensions; additionally, while the loss of retiree health benefits and the loss of "pension spiking" will reduce the postemployment retirement benefits of current employees 30-50%; and lastly, employee compensation reductions that occurred in 2011 and 2012, which ranged up to 30% in pensionable compensation in some cases, will further reduce their future pension benefit that they otherwise would have received; these concessions are unaffected by this Plan.

2. Treatment.

Any equipment leases not specifically rejected by the Rejection Motion will be assumed under this Plan. The City believes that it is current on all such equipment leases and therefore no cure payments are required.

R. Class 17 – Workers Compensation Claims.

1. Impairment and Voting.

Class 17 is not Impaired by this Plan since the treatment of this Class will not affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are not entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The City must pay Allowed SIR Claim Portions related to Workers Compensation Claims in full. If not, the City will lose its State workers compensation insurance for those claims in excess of the SIR Claim Portions, exposing the City's current and former workers to grave risk. The City will pay the SIR Claim Portions related to Worker Compensation Claims from the Workers Compensation Internal Service Fund.

S. Class 18 – SPOA Claims.

1. Impairment and Voting.

Class 18 is Impaired by this Plan since the treatment of this Class will affect the legal, equitable, or contractual rights of the holders of the Claims, and, accordingly, the holders of the Claims in this Class are entitled to vote to accept or reject this Plan in accordance with the Plan Solicitation Order.

2. Treatment.

The City will honor the SPOA Claims held by SPOA members on the terms and conditions set forth in the SPOA MOU, which in general provides each SPOA member with 44 hours of additional paid leave time through fiscal year 2014-15.

Specifically, the SPOA MOU provides as follows:

2. SPOA's Claims. SPOA alleges that its members have claims in the bankruptcy case against the City relating to the City's modification of its 2009 Memorandum of Understanding ("2009 MOU"), pursuant to Declarations of Fiscal Emergency beginning on or about May 26, 2010 and continuing in effect thereafter, and in connection with the treatment of the claims of SPOA and its members under the Pendency Plan (collectively, the "Claims"), and that, in the aggregate, the Claims exceed thirteen million dollars ($13,000,000). The City disputes the Claims and contends that the Claims would not be allowed in the chapter 9 case. It further asserts that, if the Claims were allowed, they would be allowed in an amount aggregating less than thirteen million dollars ($13,000,000).

In consideration of resolving the above differences and agreement on the MOU, the City agrees that the Claims shall be provided for in the Plan as follows:

(a) The Claims will be deemed allowed in the chapter 9 case in the aggregate amount of eight million, five hundred thousand dollars ($8,500,000) (the "Allowed Claims"). In consideration for the reduction in the amount of the Claims SPOA members employed during fiscal year 2010-2011 and/or 2011-2012 shall be credited, upon final approval of the MOU by the Parties and, if necessary, by the Bankruptcy Court, twenty-two (22) additional hours of paid leave in fiscal year 2012-2013. These additional hours of paid leave shall have no cash value and shall be utilized any time prior to the date upon which the SPOA member leaves employment with the City. Only those employees who were employed during some portion of the period July 1, 2010 and July 1, 2012 and who were still current employees upon the effective date of this Agreement shall be entitled to this treatment.

(b) The Allowed Claims shall be satisfied under the Plan by the City by crediting SPOA members employed during fiscal year 2010-2011 and/or 2011-2012 eleven (11) additional paid leave hours in the fiscal year of approval of the Plan and eleven (11) additional paid leave hours in the fiscal year after approval of the Plan. This benefit shall only apply to those employees who were employed during some portion of the period July 1, 2010 and July 1, 2012 and who are current employees as of the date the Plan is approved by the Bankruptcy Court. The total additional paid leave per SPOA member under paragraphs 2(a) and 2(b) of this article shall equal forty-four (44) hours. These additional paid leave hours shall have no cash value, and shall be utilized any time prior to the date upon which the SPOA member leaves employment with the City. It is understood that the provision of these hours shall be the sole compensation for the Claims of SPOA and its members. The additional twenty-two (22) hours additional paid leave credit contained in this paragraph 2(b) shall be contingent upon confirmation of the Plan and on the Plan becoming effective.

(c) Notwithstanding the foregoing, in the event that the Plan is not confirmed and does not become effective, the Claims shall not

> be allowed as specified herein, and both SPOA and the City agree that the Claims will be considered unresolved, with each Party reserving the right to assert or contest the Claims; provided, however, that the monetary equivalent of any paid leave hours taken pursuant to this Article shall serve as a credit against the Claims.

SPOA MOU at 55-56

V. ACCEPTANCE OR REJECTION; CRAM DOWN

A. Voting of Claims.

Each holder of an Allowed Claim classified into Classes 1A, 1B, 2, 3, 4, 5, 6, 7, 8, 9, 12, 13, 14, and 18 shall be entitled to vote each such Claim to accept or reject this Plan.

With respect to any Class of Impaired Claims that fails to accept this Plan, the City, as proponent of this Plan, intends to request that the Bankruptcy Court nonetheless confirm this Plan pursuant to the so-called "cram down" powers set forth in section 1129(b).

VI. TREATMENT OF EXECUTORY CONTRACTS AND UNEXPIRED LEASES

A. Assumption of Executory Contracts and Unexpired Leases.

Except as otherwise provided in this Plan, as to any executory contract or unexpired lease that the City elects to assume, the City shall make the Assumption Motion, which, if granted, shall cause the City to assume such contracts and leases pursuant to order of the Bankruptcy Court.

B. Cure Payments.

After the provision of notice and the opportunity for a hearing on the Assumption Motion, in accord with the Bankruptcy Rules, the Bankruptcy Court shall resolve all disputes regarding: (a) the amount of any cure payment to be made in connection with the assumption of any contract or lease; (b) the ability of the City to provide "adequate assurance of future performance" within the meaning of section 365 under the contract or lease to be assumed; and (c) any other matter pertaining to such assumption and assignment. Any party to an executory contract or unexpired lease that is included in the Assumption Motion that asserts that any payment or other performance is due as a condition to the proposed assumption shall file with the Bankruptcy Court and serve upon the City a written statement and accompanying declaration in support thereof, specifying the basis for its Claim within such deadline and in the manner established for filing objections as shall be set forth in the Assumption Motion. The failure to timely file and serve such a statement in accordance with the instructions set forth in the Assumption Motion shall be deemed to be a waiver of any and all objections to the proposed assumption and any claim for cure amounts of the agreement at issue.

C. <u>Rejection of Executory Contracts and Unexpired Leases</u>.

The Rejection Motion shall seek authority to reject all executory contracts and unexpired leases that that the City in the exercise of its business judgment deems warranted. The City anticipates rejecting any executory contract and unexpired lease that is not needed for it to continue operating as a city.

D. <u>Claims Arising From Rejection</u>.

Proofs of claim arising from the rejection of executory contracts or unexpired leases must be filed with the Bankruptcy Court and served on the City no later than 30 days after the date on which notice of entry of the order approving the Rejection Motion is served on the parties to the executory contracts and expired leases subject to the Rejection Motion. Any Claim for which a proof of claim is not filed and served within such time will be forever barred and shall not be enforceable against the City or its assets, properties, or interests in property. Unless otherwise ordered by the Bankruptcy Court, all such Claims that are timely filed as provided herein shall be classified into Class 12 (General Unsecured Claims) and treated accordingly.

E. <u>Executory Contracts and Unexpired Leases Not Included in Motion</u>.

The City is a party to hundreds of executory contracts and unexpired leases. It is reasonable to expect that due to accident or inadvertence, one or more will be omitted from the schedules that will be attached to the Assumption Motion and the Rejection Motion (collectively, "**<u>Omitted Agreements</u>**"). The Omitted Agreements, if any, shall be deemed assumed as of the Effective Date, *provided*, *however*, that any non-debtor party may, within 60 days of receiving notice from the City that such agreement is being assumed, file a motion in the Bankruptcy Court seeking an order reconsidering the assumption of the agreement.

VII. IMPLEMENTATION AND MEANS FOR IMPLEMENTATION OF THIS PLAN

This Plan is predicated upon passage of Measure A. If Measure A fails to pass, the City will be compelled to implement a plan of adjustment that further slashes staffing and services provided by the City to its residents.

Following the Effective Date, the City will continue to operate pursuant to the City Charter, the California Constitution, and other applicable laws. While the City Council adopted fiscal policies and projections to govern the allocation of the City's unrestricted resources, the City acknowledges and understands that financial plans and budgets are not fixed in stone, and that ongoing adjustments will have to be made in order to enable the City to adjust to changing economic and operational needs. However, this Plan represents the City's commitment to the binding treatment of the holders of Claims in the various Classes as enumerated in this Plan.

By the Rejection Motion, the City will reject, among other leases, the Office Building Standby Agreement, the Golf Course/Park Lease Out, and the Golf Course/Park Lease Back. Rejection of these leases will provide the City with relief from the operating and financing shortfalls associated with these leases that historically have been subsidized by the General Fund. As part of the Rejection Motion, the City intends to request the Bankruptcy Court to impose reasonable terms and conditions on the right to possess and to attend to all issues necessary to ensure a smooth transition to the new possessors that will expose the residents of the City to the lease possible disruption.

After rejection, the counterparties to the lease out transactions above may have the option, under section 365(h), to possess the leased properties. Alternatively, such counterparties may decide not to possess, with the result that, notwithstanding the rejection of the leases, the City may continue to operate the properties under such terms and conditions as the City and such parties negotiate or subject to the order of the Bankruptcy Court or other court with jurisdiction. As to each of the leased properties, the City is party to executory contracts with vendors, managers and operators of services and facilities located on such properties (e.g., the Golf Courses are managed by a management company). Should the City not continue to operate a given property, the City will likely reject the executory contracts related to that property, but if the City remains in possession and control of that property, the City will likely re-negotiate such contracts or may assume such executory contracts. At this time the City does not know whether the counterparties to the lease out transactions will elect to remain in possession (which the City may contest or attempt to impose conditions upon). When the City is in a position to make such decisions, the City will decide to reject, assume or renegotiate executory contracts with such vendors.

Pursuant to the Rejection Motion, the City also intends to reject certain executory contracts including the Ports License Agreement.

By the Assumption Motion, the City will assume, among other leases, the SEB Lease Out and the SEB Lease Back; the Arena Lease Out and the Arena Lease Back as modified by the NPFG Settlement; and the Parking Structure Lease Out and the Parking Structure Lease Back as modified by the NPFG Settlement (alternatively, these leases will be terminated).

The City will terminate the Office Building Lease Out and the Office Building Lease Back, and the City will assume the Fourth Floor Lease of 400 E. Main (alternatively, it will reject the Office Building Lease Out and the Office Building Lease Back, and it will assume the Fourth Floor Lease of 400 E. Main). [treatment is not finalized].

Passage of Measure A is necessary to implement the Plan. If passed, Measure A will generate approximately $30 million per year in new revenue from a 3/4 of one percent increase in sales taxes (from 8.25% to 9%). The Plan Financial Projections assume that Measure A will pass. The City expects that approximately two-thirds of the new revenue will be used over time to enhance depleted police services under the Marshall Plan, and the remainder will be used to fund the City's ongoing expenses including the cost of implementing the Plan. Conversely, as demonstrated in graphs included with the Plan Financial Projections, failure of Measure A means that the City will continue to incur a substantial operating deficit even if the additional hires of police and other safety officers contemplated by the Marshall Plan do not take place. Moreover, the City will be incapable of fulfilling its obligations under the Plan, and the City will be required to make additional significant cuts to existing City's services. The City cannot predict whether it would be able to continue to function under such a scenario, and it does not have detailed plans in place at this point to deal with such further across-the-board staffing and service reductions.

In addition, at the time of preparation of this Plan, the City is still involved in intense negotiations with the Indenture Trustee, Assured Guaranty, and other creditors, and is hopeful that those negotiations will culminate in agreements with such creditors on the terms of a consensual plan of adjustment that would retain City control of its assets. However, no such plan will be possible unless additional funds flow to the General Fund through Measure A.

VIII. RESERVATION OF THE CITY'S RIGHTS OF ACTION

All of the City's claims, causes of action, rights of recovery, rights of offset, recoupment rights to refunds, and similar rights shall be retained by the City. The failure to list in the Disclosure Statement any potential or existing Right of Action retained by the City is not intended to and shall not limit the rights of the City to pursue any such action. Unless a Right of Action is expressly waived, relinquished, released, compromised, or settled in this Plan, the City expressly reserves all Rights of Action for later adjudication and, as a result, no preclusion doctrine, including the doctrines of res judicata, collateral estoppel, issue preclusion, claim preclusion, estoppel (judicial, equitable, or otherwise), or laches, shall apply to such Rights of Action upon or after the confirmation or consummation of this Plan or the Effective Date. In addition, the City expressly reserves the right to pursue or adopt against any other entity any claims alleged in any lawsuit in which the City is a defendant or an interested party.

IX. DISTRIBUTIONS

A. Distribution Agent.

On or after the Effective Date, the City may retain one or more agents (including Rust Omni) to perform or assist it in performing the distributions to be made pursuant to this Plan, which agents may serve without bond. The City may provide reasonable compensation to any such agent(s) without further notice or Bankruptcy Court approval.

B. Delivery of Distributions.

All distributions to any holder of an Allowed Claim shall be made at the address of such holder as set forth in the books and records of the City or its agents, unless the City has been notified by such holder in a writing that contains an address for such holder different from the address reflected in the City's books and records. All such notifications of address changes and all address confirmations should be mailed to: City of Stockton, Attn: [__________], [insert address]. All distributions to the Indenture Trustee shall be made in accordance with the relevant indenture, as applicable.

C. Undeliverable Distributions.

1. Holding of Undeliverable Distributions.

If any distribution to any holder of a Claim is returned to the City or its agent as undeliverable, no further distributions shall be made to such holder unless and until the City is notified in writing of such holder's then-current address. Unless and until the City is so notified, such distribution shall be deemed to be "Unclaimed Property" and shall be dealt with in accordance with Section IX(C)(2).

2. Unclaimed Property.

If any entity entitled to receive distributions pursuant to this Plan does not present itself on the Effective Date or on such other date on which such entity becomes eligible for distribution, such distributions shall be deemed to be "Unclaimed Property." Unclaimed Property shall be set aside and held in a segregated account to be maintained by the City pursuant to the terms of this Plan.

3. Notification and Forfeiture of Unclaimed Property.

No later than 60 days after the date of the first distributions under the Plan, the City will file with the Bankruptcy Court a list of Unclaimed Property, together with a schedule that identifies the name and last-known address of holders of the Unclaimed Property; the City otherwise will not be required to attempt to locate any such entity. On the 60th day following the date of the first distributions made under the Plan, all remaining Unclaimed Property and accrued interest or dividends earned thereon will be remitted to and vest in the City for any such use as the City sees fit.

D. Distributions of Cash.

Any payment of Cash to be made by the City or its agent pursuant to this Plan shall be made by check drawn on a domestic bank or by wire transfer, at the sole option of the City.

E. Timeliness of Payments.

Any payments or distributions to be made pursuant to this Plan shall be deemed to be timely made if made within 14 days after the dates specified in this Plan. Whenever any distribution to be made under this Plan shall be due on a day that is a Saturday, Sunday, or legal holiday, such distribution instead shall be made, without interest, on the immediately succeeding day that is not a Saturday, Sunday, or legal holiday, but shall be deemed to have been timely made on the date due.

F. Compliance with Tax, Withholding, and Reporting Requirements.

The City shall comply with all tax, withholding, reporting, and like requirements imposed on it by any government unit, including without limitation, any payments related to CalPERS's required pension obligations, and all distributions pursuant to this Plan shall be subject to such withholding and reporting requirements. In connection with each distribution with respect to which the filing of an information return (such as Internal Revenue Service Forms W-2, 1099, or 1042) or withholding is required, the City shall file such information return with the Internal Revenue Service and provide any required statements in connection therewith to the recipients of such distribution, or effect any such withholding and deposit all moneys so withheld to the extent required by law. With respect to any entity from whom a tax identification number, certified tax identification number, or other tax information which is required by law to avoid withholding has not been received by the City, the City at its sole option may withhold the amount required and distribute the balance to such entity or decline to make such distribution until the information is received.

G. Time Bar to Cash Payments.

Checks issued by the City on account of Allowed Claims shall be null and void if not negotiated within 90 days from and after the date of issuance thereof. Requests for reissuance of any check shall be made directly to the City by the holder of the Allowed Claim with respect to which such check originally was issued. Any claim in respect of such a voided check must be made on or before the second anniversary of the Effective Date. After such date, all Claims in respect of voided checks will be discharged and forever barred and the City will retain all moneys related thereto.

H. <u>No *De Minimis* Distributions</u>.

Notwithstanding any other provision of this Plan, no Cash payment of less than $10.00 will be made by the City on account of any Allowed Claim.

I. <u>No Distributions on Account of Disputed Claims</u>.

Notwithstanding anything to the contrary in this Plan, no distributions shall be made on account of any part of any Disputed Claim until such Claim becomes Allowed (and then only to the extent so Allowed). Distributions made after the Effective Date in respect of Claims that were not Allowed as of the Effective Date (but which later became Allowed) shall be deemed to have been made as of the Effective Date.

J. <u>No Postpetition Accrual</u>.

Unless otherwise specifically provided in this Plan or Allowed by order of the Bankruptcy Court, the City will not be required to pay to any holder of a Claim any interest, penalty, or late charge accruing with respect to such Claim on or after the Petition Date.

X. <u>DISPUTED CLAIMS; OBJECTIONS TO CLAIMS; PROSECUTION OF OBJECTIONS TO DISPUTED CLAIMS</u>

A. <u>Claims Objection Deadline; Prosecution of Objections</u>.

The City will have the right to object to the allowance of Claims filed with the Bankruptcy Court with respect to which liability or allowance is disputed in whole or in part. Unless otherwise ordered by the Bankruptcy Court, the City must file and serve any such objections to Claims by not later than 180 days after the Effective Date (or, in the case of Claims lawfully filed after the Effective Date, by not later than 180 days after the date of filing of such Claims).

B. Reserves, Payments, and Distributions with Respect to Disputed Claims.

After the Effective Date has occurred, at such time as a Disputed Claim becomes an Allowed Claim, in whole or in part, the City or its agent will distribute to the holder thereof the distributions, if any, to which such holder is then entitled under this Plan. Such distributions, if any, will be made as soon as practicable after the date that the order or judgment of the Bankruptcy Court allowing such Disputed Claim becomes a Final Order (or such other date as the Claim becomes an Allowed Claim), but in no event more than 60 days thereafter. Unless otherwise specifically provided in this Plan or Allowed by order of the Bankruptcy Court, no interest will be paid on Disputed Claims that later become Allowed Claims.

XI. EFFECT OF CONFIRMATION

A. Discharge of the City.

Pursuant to section 944, upon the Effective Date, the City will be discharged from all debts (as defined in the Bankruptcy Code) of the City and Claims against the City other than (a) any debt specifically and expressly excepted from discharge by this Plan or the Confirmation Order, or (b) any debt owed to an entity that, before the Confirmation Date, had neither notice nor actual knowledge of the Chapter 9 Case.

The rights afforded in this Plan and the treatment of all holders of Claims, be they Claims Impaired or Unimpaired under this Plan, will be in exchange for and in complete satisfaction, discharge, and release of all Claims of any nature whatsoever arising on or before the Effective Date, known or unknown, including any interest accrued or expenses incurred thereon from and after the Petition Date, whether against the City or any of its properties, assets, or interests in property. Except as otherwise provided herein, upon the Effective Date all Claims against the City that arose prior to the Confirmation Date (the "**Pre-Confirmation Date Claims**") will be and shall be deemed to be satisfied, discharged, and released in full, be they Impaired or Unimpaired under this Plan.

B. Injunction.

Except as otherwise expressly provided in this Plan, all entities who have held, hold, or may hold Pre-Confirmation Date Claims shall be permanently enjoined from and after the Confirmation Date from: (a) commencing or continuing in any manner any action or other proceeding of any kind with respect to any such Pre-Confirmation Date Claim against the City or its property; (b) enforcing, attaching, collecting, or recovering by any manner or means any judgment, award, decree, or order against the City or its property with respect to such Pre-Confirmation Date Claims; (c) creating, perfecting, or enforcing any lien or encumbrance of any kind against the City or its property; and (d) asserting any right of setoff, subrogation, or recoupment of any kind against any obligation due to the City with respect to any such Pre-Confirmation Date Claim, except as otherwise permitted by section 553.

C. Term of Existing Injunctions or Stays.

Unless otherwise provided, all injunctions or stays provided for in the Chapter 9 Case pursuant to sections 105, 362, or 922, or otherwise, and in existence on the Confirmation Date, will remain in full force and effect until the Effective Date.

XII. RETENTION OF AND CONSENT TO JURISDICTION

Following the Effective Date, the Bankruptcy Court shall retain and have exclusive jurisdiction over any matter (1) arising under the Bankruptcy Code and relating to the City, (2) arising in or related to the Chapter 9 Case or this Plan, and (3) otherwise for the following:

1. to resolve any matters related to the assumption, assumption and assignment, or rejection of any executory contract or unexpired lease to which the City is a party or with respect to which the City may be liable, and to hear, determine and, if necessary, liquidate any Claims arising therefrom, including those matters related to the amendment after the Effective Date of this Plan, and to add any executory contracts or unexpired leases to the Rejection Motion, as necessary;

2. to enter such orders as may be necessary or appropriate to implement or consummate the provisions of this Plan, and all other contracts, instruments, releases, and other agreements or documents related to this Plan;

3. to determine any and all motions, adversary proceedings, applications, and contested or litigated matters that may be pending on the Effective Date or that, pursuant to this

Plan, may be instituted by the City after the Effective Date or that are instituted by any holder of a Claim before or after the Effective Date concerning any matter based upon, arising out of, or relating to the Chapter 9 Case, whether or not such action initially is filed in the Bankruptcy Court or any other court;

4. to ensure that distributions to holders of Allowed Claims are accomplished as provided herein;

5. to hear and determine any objections to Claims or to proofs of Claim filed, both before and after the Effective Date, including any objections to the classification of any Claim, and to allow, disallow, determine, liquidate, classify, estimate, or establish the priority of or secured or unsecured status of any Claim, in whole or in part;

6. to enter and implement such orders as may be appropriate in the event the Confirmation Order is for any reason stayed, revoked, modified, reversed, or vacated;

7. to issue such orders in aid of execution of this Plan, to the extent authorized by section 1142(b);

8. to consider any modifications of this Plan, to cure any defect or omission, or to reconcile any inconsistency in any order of the Bankruptcy Court, including the Confirmation Order;

9. to the extent that the City elects to bring such matters before the Bankruptcy Court, to hear and determine all applications for awards of compensation for services rendered and reimbursement of expenses incurred prior to the Effective Date;

10. to hear and determine all disputes or controversies arising in connection with or relating to this Plan or the Confirmation Order or the interpretation, implementation, or enforcement of this Plan or the Confirmation Order or the extent of any entity's obligations incurred in connection with or released under this Plan or the Confirmation Order;

11. to issue injunctions, enter and implement other orders, or take such other actions as may be necessary or appropriate to restrain interference by any entity with consummation or enforcement of this Plan;

12. to determine any other matters that may arise in connection with or are related to

this Plan, the Disclosure Statement, the Confirmation Order, or any contract, instrument, release or other agreement or document related to this Plan or the Disclosure Statement;

13. to hear any other matter for any purpose specified in the Confirmation Order that is not inconsistent with the Bankruptcy Code;

14. to hear and determine all disputes or controversies arising in connection with or relating to the terms or enforcement of any relevant agreements; and

15. to enter a final decree closing the Chapter 9 Case.

XIII. CONDITIONS PRECEDENT

A. Condition Precedent to Confirmation.

The entry of the Confirmation Order that is in form and substance satisfactory to the City, and that is reasonably satisfactory to _________, is a condition precedent to confirmation of this Plan. The approval of the State of California Department of Finance of the NPFG Settlement is also a condition precedent to confirmation of this Plan.

B. Conditions Precedent to Effective Date.

The "effective date of the plan," as used in section 1129, shall not occur, and this Plan shall be of no force and effect, until the Effective Date. The occurrence of the Effective Date is subject to the satisfaction (or waiver as set forth in Section XIII(C)) of the following conditions precedent:

1. Confirmation Order. The Confirmation Order shall have been entered, shall be in full force and effect, and shall be a Final Order (but the requirement that the Confirmation Order be a Final Order may be waived by the City at any time).

2. Plan Documents. All agreements and instruments contemplated by, or to be entered into pursuant to, this Plan shall be in form and substance acceptable to the City, shall have been duly and validly executed and delivered, or deemed executed by the parties thereto, and all conditions to their effectiveness shall have been satisfied or waived.

3. Authorizations, Consents, Etc. The City shall have received any and all authorizations, consents, regulatory approvals, rulings, no-action letters, opinions, and documents that are necessary to implement the Plan and that are required by law, regulation or order.

4. **Timing**. The Effective Date shall occur on a Business Day specified by the City on which the conditions set forth in Section XIII(B)(1) and (B)(2) are satisfied or waived; *provided* that, unless otherwise ordered by the Bankruptcy Court, the Effective Date must occur by no later than six months after the Confirmation Date.

C. Waiver of Conditions to Effective Date.

The City may waive in whole or in part any condition to effectiveness of this Plan. Any such waiver of a condition may be effected at any time, without notice or leave or order of the Bankruptcy Court and without any formal action, other than the filing of a notice of such waiver with the Bankruptcy Court.

D. Effect of Failure of Conditions.

In the event that the conditions to effectiveness of this Plan have not been timely satisfied or waived, and upon notification submitted by the City to the Bankruptcy Court, (a) the Confirmation Order shall be vacated, (b) no distributions under this Plan shall be made, (c) the City and all holders of Claims shall be restored to the status quo as of the day immediately preceding the Confirmation Date as though the Confirmation Date never occurred, and (d) all of the City's obligations with respect to the Claims shall remain unchanged and nothing contained herein shall be deemed to constitute a waiver or release of any claims by or against the City or any other entity or to prejudice in any manner the rights of the City or any entity in any further proceedings involving the City.

XIV. MISCELLANEOUS PROVISIONS

A. Dissolution of the Retirees Committee.

On the Effective Date, the Retirees Committee shall be released and discharged of and from all further authority, duties, responsibilities, and obligations relating to and arising from and in connection with the Chapter 9 Case, and the Retirees Committee shall be deemed dissolved and its appointment terminated.

B. Severability.

If, prior to the Confirmation Date, any term or provision of this Plan is held by the Bankruptcy Court or any other court having jurisdiction, including on appeal, if applicable, to be invalid, void, or unenforceable, the Bankruptcy Court, in each such case at the election of and with the consent of the City, shall have the power to alter and interpret such term or provision to make it valid or enforceable to the maximum extent practicable, consistent with the original purpose of the term or provision held to be invalid, void, or unenforceable, and such term or provision shall then be applicable as altered or interpreted. Notwithstanding any such holding, alteration, or interpretation, the remainder of the terms and provisions of this Plan shall remain in full force and effect and shall in no way be affected, impaired, or invalidated by such holding, alteration, or interpretation. The Confirmation Order shall constitute a judicial determination and shall provide that each term and provision of this Plan, as it may have been altered or interpreted in accordance with the foregoing, is valid and enforceable pursuant to its terms.

C. <u>Governing Law</u>.

Except to the extent that the Bankruptcy Code or other federal law is applicable, or to the extent that an exhibit hereto or Plan Document provides otherwise, the rights, duties, and obligations arising under this Plan shall be governed by, and construed and enforced in accordance with, the laws of the State of California, without giving effect to principles of conflicts of laws.

D. <u>Effectuating Documents and Further Transactions</u>.

Each of the officials and employees of the City is authorized to execute, deliver, file, or record such contracts, instruments, releases, indentures, and other agreements or documents and take such actions as may be necessary or appropriate to effectuate and further evidence the terms and provisions of this Plan.

E. <u>Notice of Effective Date</u>.

On or before 14 days after occurrence of the Effective Date, the City or its agent shall mail or cause to be mailed to all holders of Claims the Notice of the Effective Date, which will inform such holders of: (a) entry of the Confirmation Order; (b) the occurrence of the Effective Date; (c) the assumption and rejection of the City's executory contracts and unexpired leases pursuant to this Plan, as well as the deadline for the filing of Claims arising from such rejection; (d) the deadline established under this Plan for the filing of Administrative Claims;

(e) the procedures for changing an address of record pursuant to Section IX; and (f) such other matters as the City deems to be appropriate.

DATED: October [__], 2013

CITY OF STOCKTON, CALIFORNIA

By: */s/*
Robert Deis
City Manager

Submitted By:

ORRICK, HERRINGTON & SUTCLIFFE LLP

/s/ *Marc A. Levinson*
Marc A. Levinson
Jeffery D. Hermann
Norman C. Hile
Patrick B. Bocash
John A. Farmer
Attorneys for the City of Stockton

EXHIBITS TO THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA, DATED OCTOBER __, 2013

Exhibit A	Assured Guaranty Settlement Term Sheet [to be attached when finalized]
Exhibit B	Assured Guaranty Settlement Agreement [to be attached when finalized]
Exhibit C	NPFG Settlement Term Sheet
Exhibit D	NPFG Settlement Agreement [to be attached when finalized]
Exhibit E	SCC 16 Settlement Term Sheet [to be attached when and if finalized]
Exhibit F	Thunder Settlement Term Sheet [to be attached]

EXHIBIT C

TO

THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA

SETTLEMENT TERM SHEET

CITY OF STOCKTON
and
NATIONAL PUBLIC FINANCE GUARANTEE CORPORATION

September 27, 2013

Background

This Settlement Term Sheet (the "***Term Sheet***") is intended to summarize the results of negotiations by and between the City of Stockton (the "***City***") and National Public Finance Guarantee Corporation ("***NPFG***") which have been undertaken over the course of the past several months in mediation presided over by The Hon. Elizabeth Perris, as mediator. This Term Sheet is only intended to cover the major economic points and some key business terms of the settlement (the "***Settlement***"). It contemplates that complete documentation of the proposed Settlement will be prepared which will supersede this Term Sheet and control for purposes of the Settlement and further that such complete documentation will be included in the City's Plan of Adjustment (the "***Plan***") presented to the United States Bankruptcy Court for the Eastern District of California (the "***Bankruptcy Court***") for confirmation. Due to time constraints, the Plan initially filed may only contain a description of the Settlement and refer to documentation to be approved by the parties prior to the effectiveness of the Plan, but the intent of the parties will be to complete such documentation and to file an amended Plan containing such documentation prior to confirmation.

This Term Sheet deals with the disposition of three bond issues which represent obligations of the City, as follows:

Stockton Public Financing Authority Lease Revenue Bonds, Series 2004 (Parking and Capital Projects) (the "***2004 Parking Bonds***")

Redevelopment Agency of the City of Stockton Revenue Bonds, Series 2004 (Stockton Events Center—Arena Project) (the "***2004 Arena Bonds***")

Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A (the "***2006 SEB Bonds***" and, collectively with the 2004 Parking Bonds and the 2004 Arena Bonds, the "***NPFG Bonds***")

All of the NPFG Bonds are covered by financial guaranty insurance policies pursuant to which NPFG is obligated to make full and timely payment of scheduled debt service to the holders thereof in the event that the revenues pledged to such bonds under the NPFG Bond documents are insufficient therefor. All of the NPFG Bonds are secured by leases pursuant to which the City is obligated to pay certain rental payments from its general fund. In addition, the 2004 Arena Bonds are secured by a Pledge Agreement, dated as of March 1, 2004 (the "***Arena Pledge Agreement***"), by and between the City and the Successor Agency to the Redevelopment Agency of the City of Stockton (the "***Redevelopment Agency***"), as successor in interest, pledging certain tax increment revenues of the Redevelopment Agency (the "***Pledged Tax Increment***") to secure the 2004 Arena Bonds. Pursuant to this Settlement, all of the NPFG Bonds will remain outstanding and there will be no amendments to the documents securing the NPFG Bonds other than as described below

The 2006 SEB Bonds

The City will assume the lease relating to the 2006 SEB Bonds and continue to comply with its obligations thereunder, which, in turn, will allow Wells Fargo Bank, as trustee (the "***2006 SEB Bond Trustee***") under the indenture relating to the 2006 SEB Bonds to continue to make full and timely payment on them in accordance with the 2006 SEB Bond documents.

The 2004 Arena Bonds

The City, Wells Fargo Bank, as trustee under the indenture with respect to the 2004 Arena Bonds (the "***2004 Arena Bond Trustee***"), and NPFG will enter into a Forbearance Agreement (the "***Arena Forbearance Agreement***") pursuant to which NPFG and the 2004 Arena Bond Trustee will agree not to take any action to enforce remedies under the 2004 Arena Bond documents against the City so long as the terms of the Arena Forbearance Agreement are complied with. The Arena Forbearance Agreement will provide for a restructured payment schedule for Pledged Tax Increment as shown in Schedule 1. The 2004 Arena Bond Trustee and the Redevelopment Agency will enter into an Amended and Restated Pledge Agreement (the "***Amended Pledge Agreement***") to effect such restructuring of the Redevelopment Agency's obligations pursuant to the provisions of California Health & Safety Code Section 34177.5. The Amended Pledge Agreement will provide for the new, reduced payment schedule as well as a revision to the pledge of the Pledged Tax Increment to reflect the effect of the dissolution of the former Redevelopment Agency of the City of Stockton and the change to tax increment cashflows effected by California Health & Safety Code Section 34183. The Amended Pledge Agreement will be subject to approval by the Agency's Oversight Board as well as the State Department of Finance (the "***DOF***"). Such approvals will be conditions precedent to the effectiveness of this Settlement. The Redevelopment Agency will commence the approval process as soon as possible, beginning with an informal meeting with DOF followed by the formal approval process at the time definitive documents are prepared.

In addition to the restructured Pledged Tax Increment payment schedule, the Arena Forbearance Agreement will provide a new schedule of payment obligations from the City's general fund pursuant to the Lease Agreement, dated as of March 1, 2004 (the "***Arena Lease Back***"), by and between the City and the Redevelopment Agency, as successor in interest. This schedule, attached hereto as Schedule 2, reflects slightly lower payments than the payments under Schedule 1. To the extent that the available Pledged Tax Increment is insufficient to make the payments in Schedule 1, but is in excess of the amounts payable under Schedule 2, the City will have no obligation to make up such shortfall. However, any such delinquent payments will be included on subsequent Recognized Obligation Payments Schedule filed by the Redevelopment Agency and recoverable to the extent that Pledged Tax Increment in future years is sufficient to meet the Redevelopment Agency's current debt service obligations and make up the shortfall. To the extent that the available Pledged Tax Increment in any year is less than the amounts payable by the City pursuant to Schedule 2, the City will be obligated to make up the shortfall from its general fund, subject only to the provisions of the Arena Lease Back that excuse payment in the event of abatement.

The City will agree to continue to occupy and maintain the Arena and will be responsible for any operating subsidy; *provided, however*, that in the event of a default under the Arena Forbearance Agreement by the City, NPFG or the 2004 Arena Bond Trustee shall be entitled to exercise remedies as provided in the Arena Forbearance Agreement. Such rights and remedies shall include, but are not limited to, the right to relet the Arena. The Arena Forbearance Agreement shall provide that the City has assigned its rights in any leases, licenses or contracts relating to the Arena, which assignment shall become operative from and after the occurrence of an event of default by the City under the Arena Forbearance Agreement, in each instance, at the option of NPFG or the 2004 Arena Bond Trustee.

The 2004 Parking Bonds

The City Council will determine that there is a need for the Parking Authority of the City of Stockton to function and exercise its powers pursuant to California Government Code Section 32650 et seq. in connection with the Settlement, and will transfer to the Parking Authority the City's fee simple title to the three parking garages and any other property that is currently subject to the (i) Site and Facility Lease dated as of June 1, 2004 by and between the Stockton Public Financing Authority (the "***Authority***") and the City (the "***Parking Structure Lease Out***") and the (ii) Lease Agreement, dated as of June 1, 2004, by and between the Authority, as lessor, and the City, as lessee (the "***Parking Structure Lease Back***" and collectively, with the Parking Structure Lease Out, the "***2004 Parking Bonds Leases***") (such property and garages, collectively, the "***Garages***").

The Parking Authority will accept fee simple title to the Garages, subject to the 2004 Parking Bonds Leases and any other applicable documents or agreements relating to the 2004 Parking Bonds (such document the "***2004 Parking Bond Documents***"). In connection therewith, so long as the City and NPFG do not pursue an alternate transaction if the SCC 16 Settlement (as hereinafter defined) is not effectuated, (i) the City shall assign to the Parking Authority all of the City's rights, title and interest as lessor under the Parking Structure Lease Out, subject to the Parking Structure Lease Back, and the Parking Authority shall assume all of the City's obligations under the Parking Structure Lease Out, (ii) the City shall assign to the Parking Authority all of the City's rights, title and interest as lessee under the Parking Structure Lease Back, subject to (A) the Master Lease, dated as of February 26, 2008 (as amended and supplemented, including as amended and supplemented by the SCC 16 Settlement, the "***SCC 16 Lease***") and (B) the rights of the Authority, Wells Fargo Bank, as trustee under the indenture with respect to the 2004 Parking Bonds (the "***2004 Parking Bond Trustee***") and NPFG under the 2004 Parking Bond Documents, and the Parking Authority shall assume all of the City's obligations under the 2004 Parking Bonds Leases, the SCC 16 Lease, and the 2004 Parking Bond Documents.

The City will also transfer all of its rights, title and interests in each of the other parking facilities within the Downtown Parking District, being the area shown on Figure 1, to the Parking Authority, including surface parking lots and other parking garages. The Parking Authority will also take over the operation, maintenance and collection of revenues from parking meters in the

Downtown Parking District. Also, the Parking Authority will take over responsibility for parking enforcement in the Downtown Parking District and the citation revenues from such enforcement activity shall be assigned to the Parking Authority. The Parking Authority will likely hire a private contractor to perform all or substantially all of its operations. In addition, any new parking assets within the Downtown Parking District shall be owned by the Parking Authority.

NPFG and the 2004 Parking Bond Trustee will turn over possession of the Garages to the Parking Authority.

The City, Parking Authority, 2004 Parking Bond Trustee and NPFG will enter into a Forbearance Agreement (the "***Parking Forbearance Agreement***," and together with the Arena Forbearance Agreement, the "***Forbearance Agreements***") pursuant to which NPFG and the 2004 Parking Bond Trustee will agree not to take any action to enforce remedies under the 2004 Parking Bond Documents against the City so long as the terms of the Parking Forbearance Agreement are complied with. Pursuant to the Parking Forbearance Agreement, the Parking Authority will agree to make payments to the 2004 Parking Bond Trustee as set forth in Schedule 3.

The obligation of the Parking Authority to make the payments to the 2004 Parking Bond Trustee at the times and in the amounts set forth on Schedule 3 shall be limited obligations of the Parking Authority payable solely from and secured by a first priority lien on and security interest in the gross revenues of the Parking Authority, and shall be treated as an Operation and Maintenance expense of the Parking Authority enterprise fund, senior to any future Parking Authority debt service obligations. The City's general fund will not have any obligation with respect to such payments.

The Parking Authority will have the right to prepay, in whole, but not in part, the payments described in Schedule 3 at any time, upon 30 days' prior written notice to the 2004 Parking Bond Trustee, by payment to the 2004 Parking Bond Trustee of an amount equal to the aggregate unpaid principal and interest amounts set forth on Schedule 3 plus **[amount reflecting present value of the remaining stream of payments]** required to be made by the Stockton City Center 16, LLC (the "***SCC 16***") to the City pursuant to the SCC 16 Settlement.

The Parking Authority will have the right to issue revenue bonds secured by a pledge of the net revenues of the Parking Authority, on a subordinate basis to the obligations to make the payments under Schedule 3, so long as it meets a net revenue coverage test of 1.1 times the maximum annual debt service on such parking revenue bonds, based on the most recent audited financial statement of the Parking Authority.

Special tax revenues from the City's Community Facilities District 2001-1 (the "***Downtown CFD***") are *not* pledged to any payment under this settlement, and would not constitute Parking Authority revenues; however, a portion of such special tax revenues are expected to be used as permitted under the Downtown CFD proceedings to support some of the maintenance and operations costs of certain parking facilities within the Downtown District, thereby reducing the amount of such expenses that must be paid from the Parking Authority revenues.

The City, the 2004 Parking Bond Trustee and NPFG anticipate entering into a Settlement Agreement (the "***SCC 16 Settlement***") with SCC 16. Pursuant to the SCC 16 Settlement, SCC 16 will (among other things) agree to make certain payments as additional rent under the SCC 16 Lease, from rental income received by SCC 16 from its subtenants under certain subleases of the space leased by the SCC 16 pursuant to the SCC 16 Lease (the "***Subleased Space***"). The City and Parking Authority will agree that all such payments from SCC 16 to the City shall be assigned and payable to the 2004 Parking Bond Trustee for the 2004 Parking Bonds.

The City and Parking Authority will agree that, upon the occurrence of an event of default under the SCC 16 Lease or in the event that the Subleased Space is abandoned by SCC 16 or the SCC 16 Lease with SCC 16 is terminated for any reason, in addition to or in connection with the exercise of all of the other rights granted to the 2004 Parking Bond Trustee as assignee of the City and the Parking Authority, the 2004 Parking Bond Trustee shall have the right, with or without terminating the SCC 16 Lease, to reenter the Subleased Space, remove all persons and property therefrom and to relet the Subleased Space on behalf of the Parking Authority in accordance with the terms of the Parking Structure Lease Back, to any then-existing subtenants thereof or to any other parties as the 2004 Parking Bond Trustee may determine, and any reletting revenues derived therefrom shall be assigned, and paid directly to, the 2004 Parking Bond Trustee to be applied to the payment of the principal of, and interest on the 2004 Parking Bonds at such times and in such manner as shall be determined by NPFG. **Other than as provided in the immediately preceding sentence, in no event will the City or the Parking Authority be required to make any payment with respect to the SCC 16 Settlement from any source of funds other than the actual amounts, if any, received by the City or the Parking Authority with respect to the Subleased Space.** The City and Parking Authority will agree to assign absolutely and unconditionally their rights under the SCC 16 Lease to the 2004 Parking Bond Trustee and/or NPFG to the extent necessary to allow the 2004 Parking Bond Trustee and/or NPFG to enforce the SCC 16 Lease and the SCC 16 Settlement and will agree that they will not amend or consent to any waiver, forbearance or modification of the SCC 16 Lease or the SCC 16 Settlement without the prior written consent of the 2004 Parking Bond Trustee and NPFG; *provided that*, at the direction of NPFG or the 2004 Parking Bond Trustee, the City shall take such actions as may be required by NPFG or the 2004 Parking Bond Trustee to enforce the SCC 16 Settlement against SCC 16.

Professional Fees

Each of the City and NPFG shall bear the fees and costs of its respective professionals (including, but not limited to, its attorneys and financial advisors). Without limiting the foregoing, the City will waive the right to seek reimbursement of any fees and costs incurred by its professionals (including, but not limited to, its attorneys and financial advisors) related to the eligibility trial or the AB 506 "ask," and NPFG will waive the right to seek fees incurred by its professionals under the bond documents except for any professional fees incurred as a result of a future breach of the Plan.

The 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee shall each be entitled to recover reasonable attorneys' fees and costs from reserve fund amounts held by the respective trustees under the respective bond documents and to recover reasonable attorneys' fees with respect to any breach of the Plan in the future from such amounts; but, in the event the respective reserve fund amounts do not cover fees to date for any of the trustees (which we do not believe is the case), such trustee shall not be entitled to payment of same from the City's general fund.

Support for the Plan

NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, and the 2006 SEB Bond Trustee will agree to support the City's Plan so long as it contains terms consistent with this Settlement with respect to the NPFG Bonds.

Mutual Releases

The City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee, and the 2006 SEB Bond Trustee, will exchange mutual releases, subject to certain carve-outs for, among other things, the transactions contemplated herein, the NPFG Bonds, the NPFG policies securing the payment of the NPFG Bonds, and breaches of the Settlement and/or the SCC 16 Settlement.

No Adverse Effect

The City shall cause a nationally recognized bond counsel reasonably acceptable to the City and NPFG, which may be Orrick, to deliver its opinion to the Authority, NPFG and the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, for the benefit of the holders of the NPFG Bonds, that the transactions contemplated herein shall not cause interest on the NPFG Bonds to become includable in the gross income of the holders thereof for federal income tax purposes, and the City and the Authority shall agree to take such actions as may reasonably necessary to preserve such tax-exempt status of interest on the NPFG Bonds, including, without limitation, the tax-exempt current refunding of the bonds for federal income tax purposes, if necessary.

Documentation and Effectiveness

The City, NPFG and the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, will work diligently to complete the preparation of the Forbearance Agreements and any other documents required to implement this Term Sheet. The City will commence the process of determining that there is a need for the Parking Authority of the City of Stockton to function and exercise its powers pursuant to California Government Code Section 32650 et seq. in connection with the Settlement concurrently with the proceedings for approval of the Plan.

The Forbearance Agreements, supplemental indentures, deeds, assignments, pledge agreements, control agreements, disclosure documents, and all of the other documents, instruments and agreements to be executed and delivered in connection with the consummation of the transactions contemplated hereby, including, without limitation, the opinion letters of counsel to the City and bond counsel, and the provisions of the Plan implementing the terms hereof shall, in each case, be in form and substance reasonably satisfactory to the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable, and shall contain representations, warranties, covenants, events of default and such additional terms and conditions as are customary for transactions of this nature and otherwise reasonably acceptable to the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and the 2006 SEB Bond Trustee, as applicable.

The parties anticipate that the effectiveness of all of the documents involved in this Settlement be contingent upon the confirmation by the Court of the Plan and the Plan becoming effective.

The effectiveness of this Settlement is also contingent upon the entry into, and effectiveness of, the SCC 16 Settlement; *provided, however,* in the event that the parties are unable to agree to the terms of an SCC 16 Settlement that is acceptable to NPFG, the City, at the request or direction of the 2004 Parking Bond Trustee or NPFG shall take such actions (if any) that may be required by the 2004 Parking Bond Trustee or NPFG to terminate the Parking Structure Lease Back as part of an alternative arrangement that is acceptable to the City and the 2004 Parking Bond Trustee that is not conditioned upon the SCC 16 Settlement.

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This Term Sheet and all any and all past, present or future discussions, negotiations, conferences, meetings, telephone conferences, drafts of agreements, correspondence and writings, submissions of data, financial information, financial projections and forecasts and term sheets; whether oral, written or both, relating to the various courses of action described herein or which may be explored with respect to or in connection with the NPFG Bonds and the transactions contemplated herein and therein (the "***Discussions***") shall be considered to be communications to compromise and settle disputed matters. Nothing herein is intended to imply that Discussions prior to the date of this Term Sheet, were not "compromise negotiations" as defined in the Federal R. Evid. 408 and similar state laws and rules limiting the admissibility or discoverability of evidence concerning "compromise negotiations" or other communications to compromise and settle disputed matters (the "***Rules***"). This Term Sheet and all Discussions shall be considered "compromise negotiations" pursuant to the Rules, and no such Discussions shall ever be considered "otherwise discoverable" or be permitted to be discoverable or admissible or constitute evidence in connection with any bankruptcy case, legal proceeding, case, or litigation concerning any of the NPFG Bonds or for any other purpose such as to proving bias, admission of default, prejudice, interest of a witness or a party, negating a contention of undue delay, or an effort to obstruct a criminal investigation or prosecution as provided by the Rules.

This Term Sheet is being distributed and presented as a preliminary proposal for discussion purposes only and is not intended to be nor shall it be deemed a commitment or an offer on the part of any party hereto or any other person to enter into any of the transactions contemplated herein or otherwise. This Term Sheet merely represents a proposal of certain of the terms and conditions with respect to the proposed transactions and does not purport to reflect all matters on which the parties must reach agreement before they intend to be legally bound, and material and essential terms of such an agreement remain yet to be negotiated. Any final agreement with respect to the transactions contemplated herein may be conditioned upon additional terms and conditions and/or be substantially different from the terms and conditions discussed in this term sheet. Neither the delivery of this Term Sheet nor any discussions or representations with respect to the transactions contemplated hereby are intended to be, nor shall they constitute, a commitment, approval or binding offer of any kind or an admission of any liability or otherwise on the part of the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and/or the 2006 SEB Bond Trustee, or any of their respective affiliates or any other party, and receipt of this Term Sheet does not in any way constitute a commitment or offer or admission of liability by the City, NPFG, the 2004 Arena Bond Trustee, the 2004 Parking Bond Trustee and/or the 2006 SEB Bond Trustee or any of their respective affiliates or any other party, to enter into any agreement or to enter into, offer or accept the above described transactions or otherwise. None of the parties referred to herein shall be bound by any of the terms hereof. **This is not a commitment, offer, acceptance, approval or admission of any kind or an indication that any commitment, offer, acceptance, approval or admission will be forthcoming**. **This term sheet is subject to change or withdrawal at any time.**

Attachments

Schedule 1: Revised Pledged Tax Increment Payment Schedule
Schedule 2: City's Maximum General Fund Payment Schedule, 2004 Arena Bonds
Schedule 3: Parking Installment Payment Schedule

Figure 1: Downtown Parking District Map

SCHEDULE 1: REVISED PLEDGED TAX INCREMENT PAYMENT SCHEDULE

Date	Annual Debt Service
9/1/2013	
9/1/2014	2,542,553.95
9/1/2015	2,591,972.37
9/1/2016	2,650,716.64
9/1/2017	2,703,523.65
9/1/2018	2,762,164.13
9/1/2019	2,789,110.81
9/1/2020	2,901,782.49
9/1/2021	2,975,126.93
9/1/2022	3,046,835.85
9/1/2023	3,113,133.32
9/1/2024	3,185,079.49
9/1/2025	3,255,771.74
9/1/2026	3,368,434.55
9/1/2027	3,444,630.00
9/1/2028	3,519,247.35
9/1/2029	3,627,234.10
9/1/2030	3,735,787.50
9/1/2031	3,811,362.85
9/1/2032	3,891,702.35
9/1/2033	3,976,028.20
9/1/2034	4,058,599.95
9/1/2035	4,143,968.70
9/1/2036	4,236,750.00
Totals	**76,331,516.92**

SCHEDULE 2: CITY'S MAXIMUM GENERAL FUND PAYMENT SCHEDULE, 2004 ARENA BONDS

Date	Annual Debt Service
9/1/2013	
9/1/2014	2,542,553.95
9/1/2015	2,591,972.37
9/1/2016	2,650,716.64
9/1/2017	2,703,523.65
9/1/2018	2,762,164.13
9/1/2019	2,789,110.81
9/1/2020	2,898,756.25
9/1/2021	2,956,156.25
9/1/2022	3,019,556.25
9/1/2023	3,081,962.50
9/1/2024	3,144,625.00
9/1/2025	3,210,450.00
9/1/2026	3,280,750.00
9/1/2027	3,351,750.00
9/1/2028	3,419,750.00
9/1/2029	3,499,500.00
9/1/2030	3,570,000.00
9/1/2031	3,641,250.00
9/1/2032	3,717,750.00
9/1/2033	3,798,750.00
9/1/2034	3,878,500.00
9/1/2035	3,951,500.00
9/1/2036	4,042,500.00
Totals	**74,503,547.81**

SCHEDULE 3: PARKING INSTALLMENT PAYMENT SCHEDULE

City of Stockton
Parking Enterprise Fund
Projected Payment Schedule
Gross Debt Service Schedule

Date	Principal	Coupon	Yield	Dollar Price	Accreted Interest	Periodic Debt Service	Fiscal Year Debt Service	Scheduled Debt Service	Remaining Principal	Optional Prepayment
06/01/14										
09/01/14	699,611.38	-	5.000	98.765	8,691.12	708,302.50		708,302.50	25,611,145.68	26,319,448.18
03/01/15	682,547.65	-	5.000	96.364	25,754.85	708,302.50	1,416,605.00	708,302.50	24,928,598.03	25,636,900.53
09/01/15	665,900.15	-	5.000	94.014	42,402.35	708,302.50		708,302.50	24,262,697.88	24,971,000.38
03/01/16	649,658.68	-	5.000	91.721	58,643.82	708,302.50	1,416,605.00	708,302.50	23,613,039.20	24,321,341.70
09/01/16	633,813.35	-	5.000	89.483	74,489.15	708,302.50		708,302.50	22,979,225.85	23,687,528.35
03/01/17	618,354.48	-	5.000	87.301	89,948.02	708,302.50	1,416,605.00	708,302.50	22,360,871.37	23,069,173.87
09/01/17	603,272.67	-	5.000	85.172	105,029.83	708,302.50		708,302.50	21,757,598.70	22,465,901.20
03/01/18	588,558.70	-	5.000	83.094	119,743.80	708,302.50	1,416,605.00	708,302.50	21,169,040.00	21,877,342.50
09/01/18	644,547.16	-	5.000	81.068	150,526.85	795,074.01		795,074.01	20,524,492.84	21,319,566.85
03/01/19	628,826.50	-	5.000	79.090	166,247.51	795,074.01	1,590,148.02	795,074.01	19,895,666.34	20,690,740.35
09/01/19	615,997.01	-	5.000	77.161	182,327.00	798,324.01		798,324.01	19,279,669.33	20,077,993.34
03/01/20	600,972.69	-	5.000	75.279	197,351.32	798,324.01	1,596,648.02	798,324.01	18,678,696.64	19,477,020.65
09/01/20	588,749.47	-	5.000	73.443	212,889.54	801,639.01		801,639.01	18,089,947.17	18,891,586.18
03/01/21	574,389.72	-	5.000	71.652	227,249.29	801,639.01	1,603,278.02	801,639.01	17,515,557.45	18,317,196.46
09/01/21	562,743.89	-	5.000	69.904	242,276.42	805,020.31		805,020.31	16,952,813.56	17,757,833.87
03/01/22	549,018.43	-	5.000	68.199	256,001.88	805,020.31	1,610,040.62	805,020.31	16,403,795.13	17,208,815.44
09/01/22	537,922.51	-	5.000	66.536	270,546.73	808,469.24		808,469.24	15,865,872.62	16,674,341.86
03/01/23	524,802.45	-	5.000	64.913	283,666.79	808,469.24	1,616,938.48	808,469.24	15,341,070.17	16,149,539.41
09/01/23	514,230.27	-	5.000	63.330	297,756.87	811,987.14		811,987.14	14,826,839.90	15,638,827.04
03/01/24	501,688.07	-	5.000	61.785	310,299.07	811,987.14	1,623,974.28	811,987.14	14,325,151.83	15,137,138.97
09/01/24	491,614.72	-	5.000	60.278	323,960.68	815,575.40		815,575.40	13,833,537.11	14,649,112.51
03/01/25	479,624.12	-	5.000	58.808	335,951.28	815,575.40	1,631,150.80	815,575.40	13,353,912.99	14,169,488.39
09/01/25	470,025.86	-	5.000	57.374	349,209.57	819,235.43		819,235.43	12,883,887.13	13,703,122.56
03/01/26	458,561.82	-	5.000	55.974	360,673.61	819,235.43	1,638,470.86	819,235.43	12,425,325.31	13,244,560.74
09/01/26	449,416.07	-	5.000	54.609	373,552.59	822,968.66		822,968.66	11,975,909.24	12,798,877.90
03/01/27	438,454.70	-	5.000	53.277	384,513.96	822,968.66	1,645,937.32	822,968.66	11,537,454.54	12,360,423.20
09/01/27	429,739.94	-	5.000	51.978	397,036.61	826,776.55		826,776.55	11,107,714.60	11,934,491.15
03/01/28	419,258.48	-	5.000	50.710	407,518.07	826,776.55	1,653,553.10	826,776.55	10,688,456.12	11,515,232.67
09/01/28	410,954.22	-	5.000	49.473	419,706.38	830,660.60		830,660.60	10,277,501.90	11,108,162.50
03/01/29	400,930.95	-	5.000	48.267	429,729.65	830,660.60	1,661,321.20	830,660.60	9,876,570.95	10,707,231.55
09/01/29	393,017.70	-	5.000	47.089	441,604.64	834,622.34		834,622.34	9,483,553.25	10,318,175.59
03/01/30	383,431.90	-	5.000	45.941	451,190.44	834,622.34	1,669,244.68	834,622.34	9,100,121.35	9,934,743.69
09/01/30	375,891.07	-	5.000	44.820	462,772.23	838,663.30		838,663.30	8,724,230.28	9,562,893.58
03/01/31	366,723.00	-	5.000	43.727	471,940.30	838,663.30	1,677,326.60	838,663.30	8,357,507.28	9,196,170.58
09/01/31	359,536.92	-	5.000	42.661	483,248.17	842,785.09		842,785.09	7,997,970.36	8,840,755.45
03/01/32	350,767.72	-	5.000	41.620	492,017.37	842,785.09	1,685,570.18	842,785.09	7,647,202.64	8,489,987.73

Date	Principal	Coupon	Yield	Dollar Price	Accreted Interest	Periodic Debt Service	Fiscal Year Debt Service	Scheduled Debt Service	Remaining Principal	Optional Prepayment
09/01/32	343,919.53	-	5.000	40.605	503,069.78	846,989.31		846,989.31	7,303,283.11	8,150,272.42
03/01/33	335,531.25	-	5.000	39.615	511,458.06	846,989.31	1,693,978.62	846,989.31	6,967,751.86	7,814,741.17
09/01/33	329,004.92	-	5.000	38.648	522,272.70	851,277.62		851,277.62	6,638,746.94	7,490,024.56
03/01/34	320,980.41	-	5.000	37.706	530,297.21	851,277.62	1,702,555.24	851,277.62	6,317,766.53	7,169,044.15
09/01/34	314,760.67	-	5.000	36.786	540,891.02	855,651.69		855,651.69	6,003,005.86	6,858,657.55
03/01/35	307,083.58	-	5.000	35.889	548,568.11	855,651.69	1,711,303.38	855,651.69	5,695,922.28	6,551,573.97
09/01/35	301,155.88	-	5.000	35.014	558,957.36	860,113.24		860,113.24	5,394,766.40	6,254,879.64
03/01/36	293,810.62	-	5.000	34.160	566,302.62	860,113.24	1,720,226.48	860,113.24	5,100,955.78	5,961,069.02
09/01/36	288,161.12	-	5.000	33.326	576,502.91	864,664.03		864,664.03	4,812,794.66	5,677,458.69
03/01/37	281,132.80	-	5.000	32.514	583,531.23	864,664.03	1,729,328.06	864,664.03	4,531,661.86	5,396,325.89
09/01/37	275,748.30	-	5.000	31.721	593,557.53	869,305.83		869,305.83	4,255,913.56	5,125,219.39
03/01/38	269,022.74	-	5.000	30.947	600,283.09	869,305.83	1,738,611.66	869,305.83	3,986,890.82	4,856,196.65
09/01/38	263,890.69	-	5.000	30.192	610,149.77	874,040.46		874,040.46	3,723,000.13	4,597,040.59
03/01/39	257,454.33	-	5.000	29.456	616,586.13	874,040.46	1,748,080.92	874,040.46	3,465,545.80	4,339,586.26
09/01/39	252,562.77	-	5.000	28.737	626,307.02	878,869.79		878,869.79	3,212,983.03	4,091,852.82
03/01/40	246,402.70	-	5.000	28.036	632,467.09	878,869.79	1,757,739.58	878,869.79	2,966,580.33	3,845,450.12
09/01/40	241,740.24	-	5.000	27.353	642,055.47	883,795.71		883,795.71	2,724,840.09	3,608,635.80
03/01/41	235,844.14	-	5.000	26.685	647,951.57	883,795.71	1,767,591.42	883,795.71	2,488,995.95	3,372,791.66
09/01/41	231,399.93	-	5.000	26.035	657,420.21	888,820.14		888,820.14	2,257,596.02	3,146,416.16
03/01/42	225,756.03	-	5.000	25.400	663,064.11	888,820.14	1,777,640.28	888,820.14	2,031,839.99	2,920,660.13
09/01/42	221,519.74	-	5.000	24.780	672,425.32	893,945.06		893,945.06	1,810,320.25	2,704,265.31
03/01/43	216,116.82	-	5.000	24.176	677,828.24	893,945.06	1,787,890.12	893,945.06	1,594,203.43	2,488,148.49
09/01/43	212,078.62	-	5.000	23.586	687,093.86	899,172.48		899,172.48	1,382,124.81	2,281,297.29
03/01/44	206,905.97	-	5.000	23.011	692,266.51	899,172.48	1,798,344.96	899,172.48	1,175,218.84	2,074,391.32
09/01/44	206,968.52	-	5.000	22.449	714,961.92	921,930.44	-	921,930.44	968,250.32	1,890,180.76
03/01/45	201,920.51	-	5.000	21.902	720,009.93	921,930.44	1,843,860.88	921,930.44	766,329.81	1,688,260.25
09/01/45	198,157.73	-	5.000	21.368	729,211.32	927,369.05	-	927,369.05	568,172.08	1,495,541.13
03/01/46	193,324.61	-	5.000	20.847	734,044.44	927,369.05	1,854,738.10	927,369.05	374,847.47	1,302,216.52
09/01/46	189,737.61	-	5.000	20.338	743,178.82	932,916.43	-	932,916.43	185,109.86	1,118,026.29
03/01/47	185,109.86	-	5.000	19.842	747,806.57	932,916.43	1,865,832.86	932,916.43	-	932,916.43
Totals	**26,310,757.06**				**28,756,987.68**	**55,067,744.74**	**55,067,744.74**			

FIGURE 1: DOWNTOWN PARKING DISTRICT MAP

Boundary Map of City of Stockton CFD 2001-1 (Downtown Parking District)

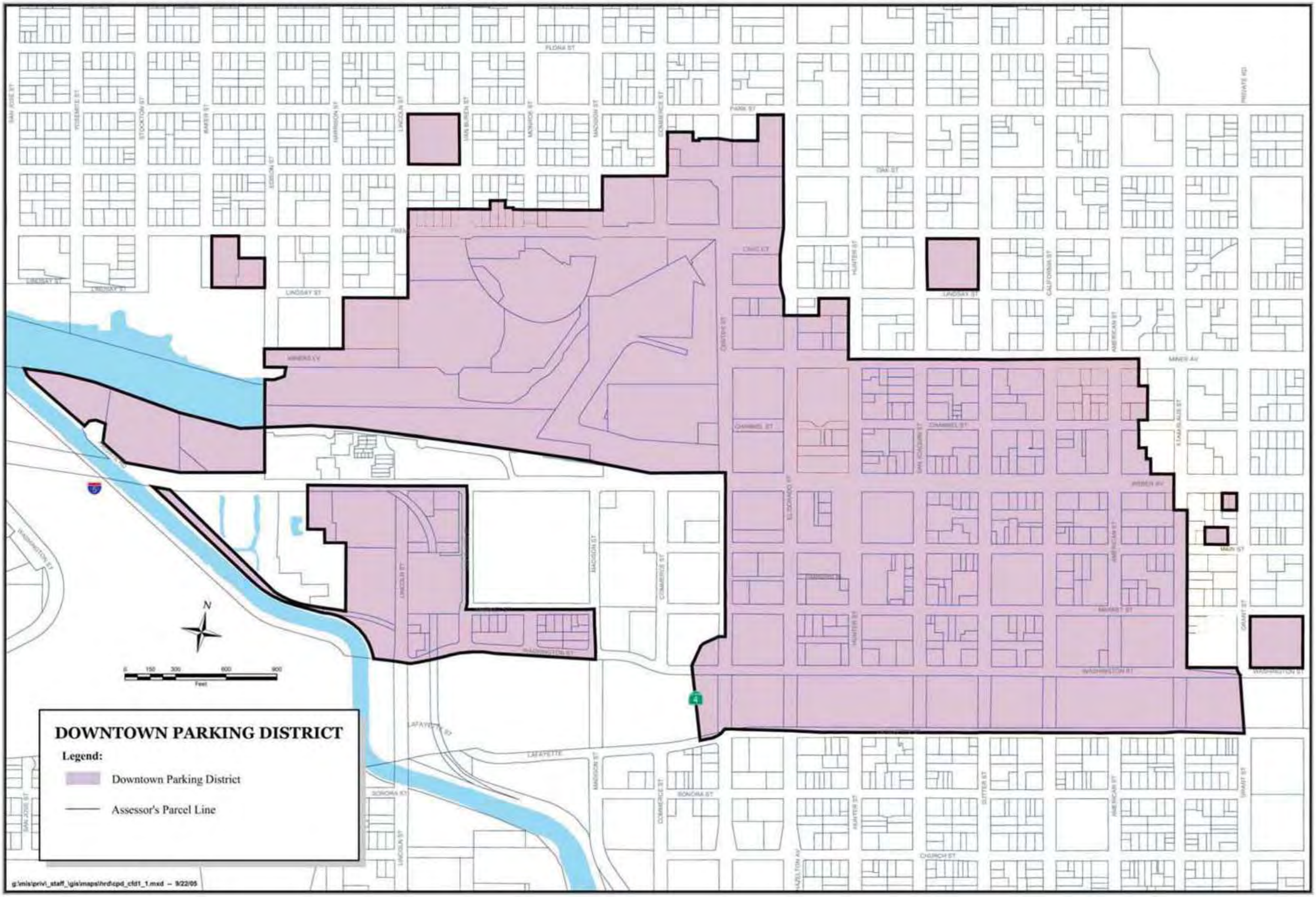


EXHIBIT B

TO

DISCLOSURE STATEMENT

WITH RESPECT TO

THE PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA

EXHIBIT B

LONG-RANGE FINANCIAL PLAN OF CITY OF STOCKTON

Forecast Basics

The General Fund budget forecast includes the following sections:

- Baseline Budget – Revenue projections are based on current revenue sources (before the Measure A sales tax on the November 2013 ballot). Expenditure projections are based on the current FY13-14 budget level of staffing, including future cost-of-living increases (COLAs) to remain competitive, and projected pension rate changes. These costs are inclusive of the labor agreements negotiated under the AB 506 mediation process which have since been approved and implemented. Services, supplies and program support assume inflationary growth. Debt service is based on original amortization schedules and projected contributions from other funds. The baseline budget is the status quo, but it is neither sustainable (it is service insolvent) nor viable (it is budgetary and cash insolvent).
- Fiscal Stabilization – This section contains expenditure increases to the status quo baseline budget, including modest increased contributions to deferred maintenance and internal service funds (worker's compensation and liability insurance reserves, etc.), and funding of the Marshall Plan for improved public safety services. It is important to note that reinvestment in public safety as mapped out in the Marshall Plan is absolutely essential to Stockton's ultimate success, because we must combat crime and violence in order to build an economically healthy City. The fiscal stabilization budget is sustainable (while it does not meet *all* of the City's needs, it is arguably no longer service insolvent) but it remains unviable (because it is even more budgetary and cash insolvent due to the higher level of spending).
- Restructuring Savings – This section includes savings proposed under the original AB 506 process which require chapter 9 protection in order to be implemented for retiree medical benefits, debt obligations, lawsuit claimants and sports teams. (Again, the labor savings portion of restructuring savings has already been implemented.) For purposes of this presentation we have incorporated what we believe will be a negotiated settlement with the large creditor mentioned earlier. This is the most conservative approach for the City to take, given the uncertainty, and thus prudent. This section also includes the proposed revenue from Measure A, along with additional efficiencies, cost recovery and income from land sales. With all of these savings and new revenues, the City realizes a balanced budget that is not service insolvent.

Tables 1A, 1B and 1C summarize these three elements of the General Fund budget and show the resulting net surplus or shortfall projected to remain after each element over the next 30 years. The entire forecast is shown in Exhibit A. It is important to note that a forecast of this range is inherently subject to significant variability. Even a one percent change in assumptions can have a major impact over time. However given the long-term nature of City obligations we need to have a plan and have attempted to model likely fiscal performance in a conservative manner. These conservative modeling assumptions, which are detailed in our discussion of revenues and variable expenditures later in this report, mean that on balance we can expect that variances are somewhat more likely to be "good news" than "bad news", but we have also striven to develop realistic projections given the pressure to restore City services and pay creditors. The point is that the forecast is prudently conservative but still subject to risks based on assumptions made.

Table 1A. Long-Range Financial Plan With Restructuring Savings (FY11-12 to FY 20-21)

($ in 000)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Total Baseline Revenues	160,268	160,655	159,519	161,354	165,590	170,453	175,456	180,591	185,922	191,109
Total Baseline Expenditures	159,254	174,319	184,702	190,450	202,611	210,492	214,599	220,371	226,519	231,835
Net Annual After Baseline	1,013	(13,663)	(25,184)	(29,097)	(37,021)	(40,038)	(39,142)	(39,780)	(40,597)	(40,725)
Fiscal Stabilization Expenditures	-	-	-	18,995	24,526	22,691	23,032	24,215	25,409	26,719
Net Annual After Stabilization	1,013	(13,663)	(25,184)	(48,092)	(61,547)	(62,729)	(62,175)	(63,995)	(66,006)	(67,444)
Total Restructuring	653	20,862	31,987	57,120	58,823	61,535	61,843	62,936	65,251	65,713
Net Annual After Restructuring	1,666	7,199	6,804	9,028	(2,724)	(1,194)	(331)	(1,059)	(755)	(1,731)
Beginning Available Balance	6,639	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769
Transfer to Bankruptcy Fund	(5,592)	(6,913)	-	-	-	-	-	-	-	-
AB 506 Carryover	(2,713)	2,713	-	-	-	-	-	-	-	-
Ending General Fund Balance	-	3,000	9,804	18,832	16,108	14,914	14,583	13,524	12,769	11,038
Balance as % of Total Exp	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%

Table 1B. Long-Range Financial Plan With Restructuring Savings (FY21-22 to FY 30-31)

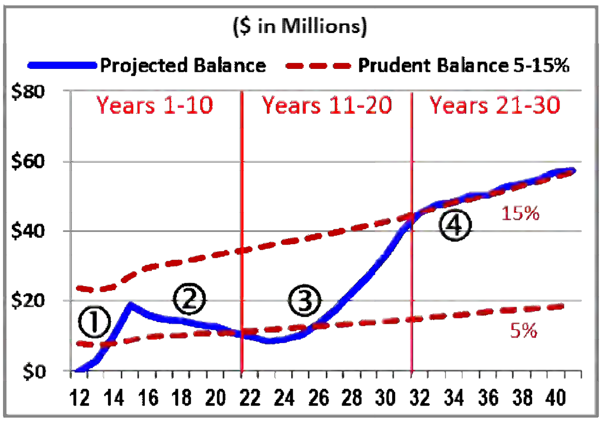
($ in 000)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
Total Baseline Revenues	196,439	201,955	207,664	213,586	219,635	225,756	232,002	238,339	244,759	251,271
Total Baseline Expenditures	238,112	244,445	250,931	257,906	263,001	269,997	277,460	284,400	291,443	298,628
Net Annual After Baseline	(41,672)	(42,490)	(43,267)	(44,320)	(43,367)	(44,241)	(45,458)	(46,060)	(46,684)	(47,357)
Fiscal Stabilization Expenditures	27,220	27,732	28,249	28,775	29,303	29,838	30,387	30,940	31,502	32,076
Net Annual After Stabilization	(68,892)	(70,222)	(71,516)	(73,095)	(72,670)	(74,079)	(75,845)	(77,000)	(78,186)	(79,433)
Total Restructuring	67,871	69,028	71,689	74,470	75,894	77,964	80,760	81,813	84,081	86,380
Net Annual After Restructuring	(1,021)	(1,194)	173	1,375	3,224	3,885	4,915	4,812	5,894	6,947
Beginning Available Balance	11,038	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	10,017	8,823	8,996	10,371	13,595	17,480	22,395	27,207	33,101	40,048
Balance as % of Total Exp	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%

Table 1C. Long-Range Financial Plan With Restructuring Savings (FY31-32 to FY 40-41)

($ in 000)	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
Total Baseline Revenues	257,847	263,430	270,046	276,595	283,323	289,681	296,520	303,403	310,213	317,206
Total Baseline Expenditures	302,987	309,314	313,691	321,179	317,755	325,171	333,834	328,571	333,615	340,102
Net Annual After Baseline	(45,140)	(45,885)	(43,645)	(44,584)	(34,432)	(35,490)	(37,314)	(25,168)	(23,402)	(22,896)
Fiscal Stabilization Expenditures	38,304	42,894	49,047	48,649	63,033	61,630	64,242	68,403	69,047	69,717
Net Annual After Stabilization	(83,445)	(88,779)	(92,692)	(93,233)	(97,465)	(97,120)	(101,556)	(93,571)	(92,449)	(92,613)
Total Restructuring	88,682	91,003	93,269	95,447	97,323	99,472	102,546	94,895	94,100	94,474
Net Annual After Restructuring	5,237	2,224	577	2,214	(142)	2,352	990	1,324	1,651	1,861
Beginning Available Balance	40,048	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475
Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
Ending General Fund Balance	45,285	47,509	48,086	50,300	50,158	52,510	53,500	54,824	56,475	58,336
Balance as % of Total Exp	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%

Due to the timing of new tax revenues, implementing the Marshall Plan, and changing levels of PERS rates, the General Fund balance will vary as shown in Figure 1.

Figure 1. General Fund Balance with Revenue Growth as Forecasted

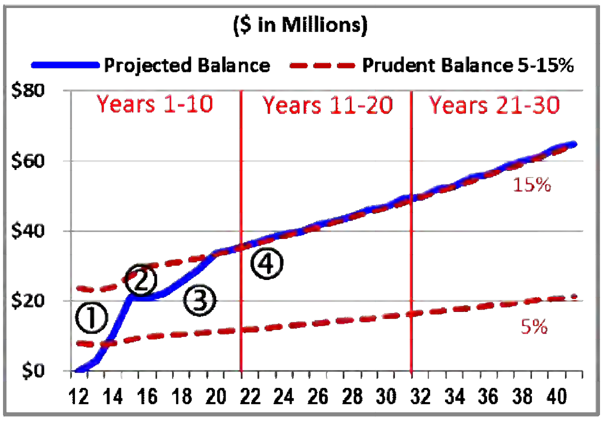


1. Balance rises with new tax revenue before Marshall Plan is fully implemented.
2. Balance declines with higher PERS rates and new Marshall Plan spending .
3. Balance stabilizes and then increases as (a) PERS rates level off and then decline due to impact of reforms and (b) with cumulative impact of lower debt expenditures.
4. When balance reaches 15% of expenditures, the resources in excess of that level can be used to restore services and fund unmet needs (projected at $253 million through FY40-41), while maintaining a stable reserve.

As is apparent from these graphics, the City will need to be carefully managed for some time to make sure that the General Fund balance maintains a prudent level of reserves. To weather the impacts created by near-term increases in PERS rates and implementation of the Marshall Plan, the City will have to exercise disciplined expenditure control. With the longer run stabilization and eventually reduction in PERS costs, the City's fiscal position will improve.

It should also be noted that we have been conservative in developing model assumptions, so it is possible that actual performance will be somewhat better than projected. Small ongoing improvements to base revenues, compounded over time, can significantly improve the fund balance outlook and capacity to address unmet needs. For example, Figure 1A below compares what fund balance would look like if our annual growth in core revenues (all taxes, including Measure A) is just 0.5% better than projected. Under this scenario fund balance hits the 15% reserve target in 2020 (despite higher near-term retirement costs), and mission critical spending capacity over the entire 30-year period increases from $253 million under the forecasted revenue level to $735 million under a "forecast+0.5%" growth in core revenues.

Figure 1A. General Fund Balance with Annual Ongoing Core Revenue Growth 0.5% Higher Than Forecasted (Compounded Basis)



1. Balance rises with new tax revenue before Marshall Plan is fully implemented.
2. Balance declines with higher PERS rates and new Marshall Plan spending.
3. Balance stabilizes and then increases as (a) PERS rates level off and then decline due to impact of reforms and (b) with cumulative impact of lower debt expenditures.
4. When balance reaches 15% of expenditures, the resources in excess of that level can be used to restore services and fund unmet needs(projected at $735 million through FY40-41), while maintaining a stable reserve.

The following is a summary of the key revenue and expenditure assumptions on which this forecast is based.

Major Revenue Trends

Property Tax – This tax comprises 27.1% of total FY13-14 General Fund revenue, and includes property tax in lieu of vehicle license fees. At $43.9 million, property tax revenue remains 28.2% below its peak of $61.1 million in FY07-08. Stockton property values declined precipitously during the Great Recession: during 2009-2012 Stockton ranked from 2nd to 4th in the nation in magnitude of home price reduction. Median home prices fell from a peak of $400,000 in December 2005 to $118,500 in February 2012, a decline of 70%. Home sale prices have begun to recover over the past year, but given the time lag in property tax administration this will not be immediately realized in terms of higher tax revenues. There is also a lag in addressing assessment appeals, which means some value declines, especially for commercial properties, have not yet been implemented.

The FY13-14 adopted budget assumes a 0.72% overall increase in property tax revenue, but this will not be confirmed until mid-December 2013 when the first tax payment is received. The forecast assumes property tax growth of 2.5% in FY14-15, rising to 4.0% in FY15-16, and 4.5% from FY16-17 through FY19-20, with slower growth rates thereafter. This is a mid-range estimate, given that there will be higher and lower growth years, and as the early 1980s, mid-1990s, and last several years attest, there will be negative growth years as well. This is a revenue source strongly linked to the real estate market and general economy, as evidenced by the revenue levels shown in Figure 2 and the percentage change in revenue in Figure 3. The linear trend from actual revenues received during FY96-97 through FY12-13 remains higher than the forecasted revenues for two reasons: (1) the dramatic growth rates in property values fueled by easy credit during the late 1990s and early 2000s is not expected to be repeated in the post-Great Recession banking environment, and (2) the historical revenue included an average of 2,064 new housing units each year, whereas a market absorption study prepared for the City projects an average of 700 units annually going forward.

Figure 2. Property Tax Revenue Forecast

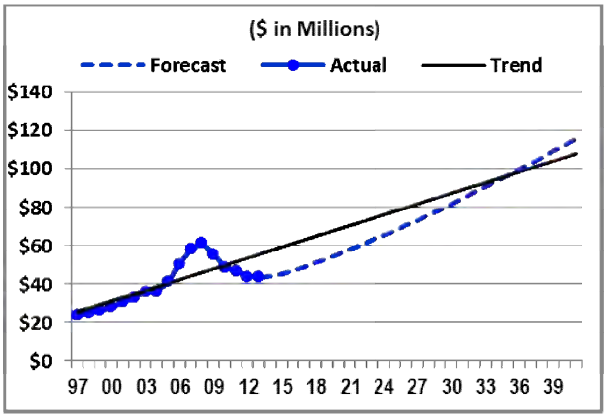
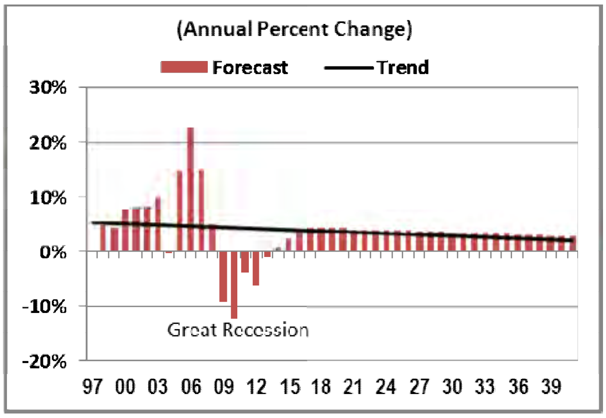


Figure 3. Property Tax Growth Rate



<u>Sales Tax</u> – This tax comprises 24.6% of total FY13-14 General Fund revenue, and includes the 0.75% local tax rate, the 0.25% "triple flip" tax rate paid by the state through the annual property tax remittance from the county, and the Prop 172 public safety sales tax. (Not included here are the current 0.25% Measure W public safety sales tax, which is a special tax accounted for in a separate fund, and the proposed 0.75% Measure A general sales tax.) At $40.2 million, sales tax revenue remains 14.5% below its peak of $47.0 million in FY05-06. Figures 4 and 5 show the historical and forecasted sales tax revenues, which have registered positive growth the last four years, following four years of decline.

The estimates for FY12-13 through FY14-15 were supplied by HdL Companies, the city's sales tax consultant. Future years reflect a mid-range growth estimate (which is higher than the 20-year average Consumer Price Index growth of 2.5%). Again, this is a mid-range estimate, taking into account that some years will be higher, and others lower (or negative). In addition to the effects of general economic conditions, there is continued downward pressure on sale tax levels from an ongoing shift to untaxed services, and increasing on-line purchases that avoid or divert sales tax payment to other jurisdictions. Long-term revenue growth is projected at 3.5%, which is consistent with the revenue growth trend line.

Figure 4. Sales Tax Revenue Forecast

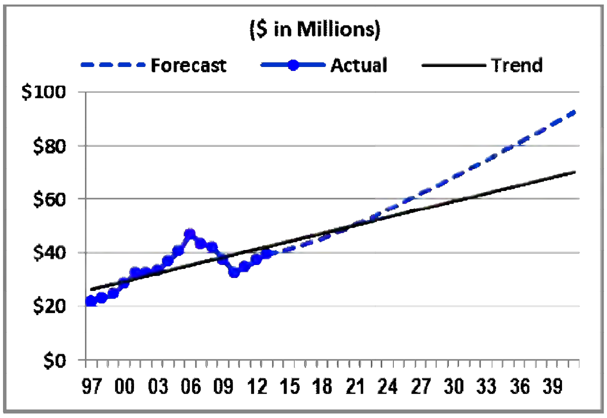
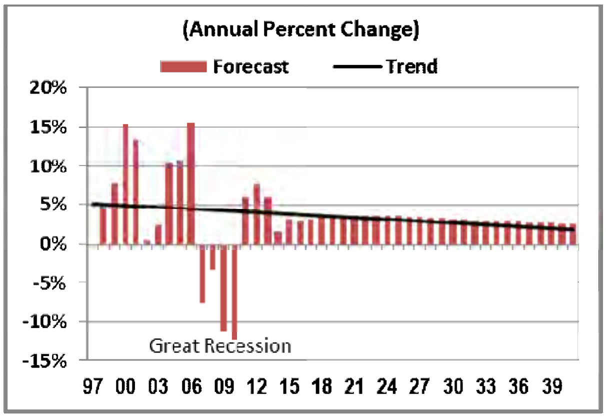


Figure 5. Sales Tax Growth Rate



Utility Users Tax – The General Fund's third largest revenue source is the 6% utility users tax on gas, electric, telecommunications, cable TV and water. This tax raises $32.2 million in FY13-14 (19.8% of General Fund revenue), and remains 7.8% below its peak year of $34.9 million in FY04-05. Estimates from FY12-13 through FY14-15 for the non-water sectors were supplied by MuniServices, the city's utility users tax consultant.

Figures 6 and 7 show the two major impacts on the tax: (1) the California "energy crisis" of 2001 that for a time dramatically increased the energy costs on which the tax was applied, and the subsequent reduction in tax rate from 8% to 6% over 2005-2007. Since then the tax has barely averaged a 1.0% growth rate, in part because of a reduced growth rate in new households, price competition and changing trends in telecommunications (reduced use of cable and landline phones), and customer conservation efforts. The City is discussing a Climate Action Plan that will be encouraging conservation, and water conservation efforts mandated by state law are having and will continue to have a similar effect. For these reasons the forecasted revenues runs just below the linear trend of utility user tax revenues based on past actual revenues. Long-term revenue growth is projected at 1.5%.

Figure 6. Utility Users Tax Revenue Forecast

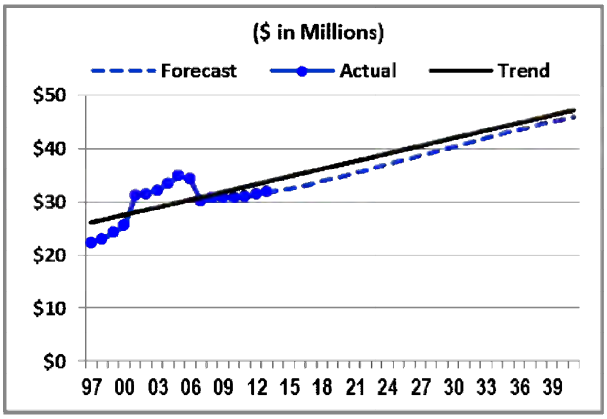
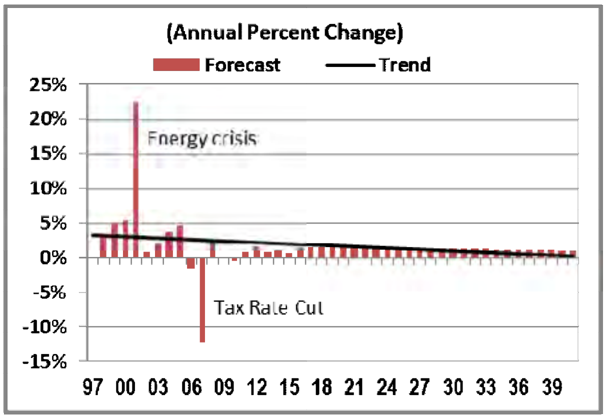


Figure 7. Utility Users Tax Growth Rate



Other Revenues – The remaining 28.5% of General Fund revenue is comprised of the following sources:

- Franchise taxes on PG&E, cable TV/video and waste haulers (7.3% of General Fund revenue). Similar to the UUT, this $11.7 million tax is somewhat volatile, being based on franchisee gross receipts. Slower population growth, conservation and telecommunication industry trends are projected to limit future revenue growth to 2.0%.
- Business License Tax ($9.0 million or 5.6% of General Fund revenue). This tax on business gross receipts reflects changes in the overall economy, and is expected to grow slowly in coming years, given local economic conditions. Long-term revenue growth is projected at 1.5%.
- Program Revenues ($10.3 million or 6.5% of General Fund revenue) include charges for services, fines and forfeitures, fire contract, revenue from other agencies, licenses and permits, code enforcement and miscellaneous revenue. Composite long-term growth is projected at 1.1%.
- Interfund Reimbursements and Transfers ($9.7 million or 6.1% of General Fund revenue) include indirect cost allocation, refunds and reimbursements, rents, leases, concessions, and Parking Fund reimbursement of debt service. Composite long-term revenue growth declines from 2.0% to 0.5% over time.
- Other Taxes ($2.6 million or 1.6% of General Fund revenue) include the hotel tax (1.0% annual growth), documentary transfer tax (1.5% annual growth) and vehicle license fees (no growth).
- Interest Income is a negligible amount in FY13-14, but it will grow at varying rates in future years based on fund balance levels.

Figures 8 and 9 show the volatility of these "Other Revenue" sources over time. The linear trend based on past year collections is much higher than the forecasted revenues, because in past years this category included funds that are no longer received by the General Fund, such as water payments in lieu of taxes (ruled illegal by court), construction permits (switched to Development Services Fund), or past one-time budget fixes (such as workers compensation reimbursements).

Figure 8. Other Revenue Forecast

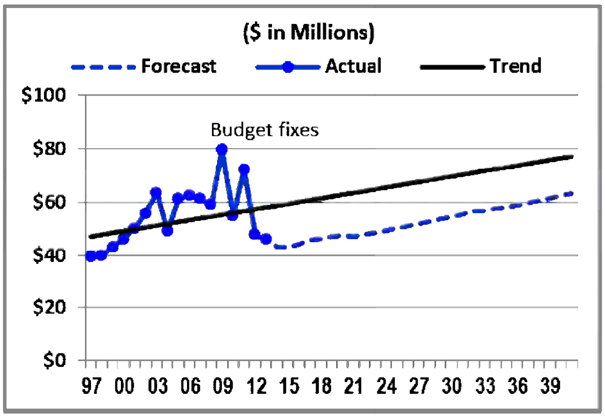
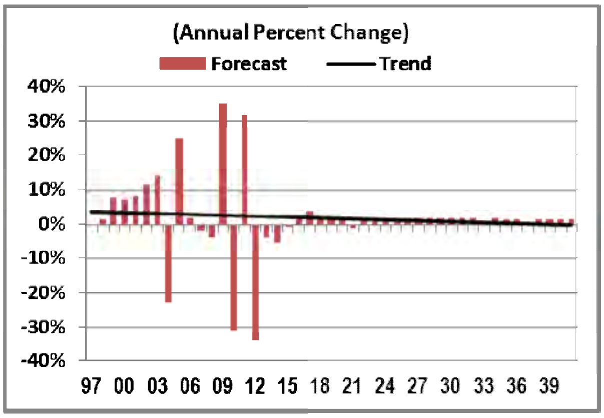


Figure 9. Other Revenue Growth Rate

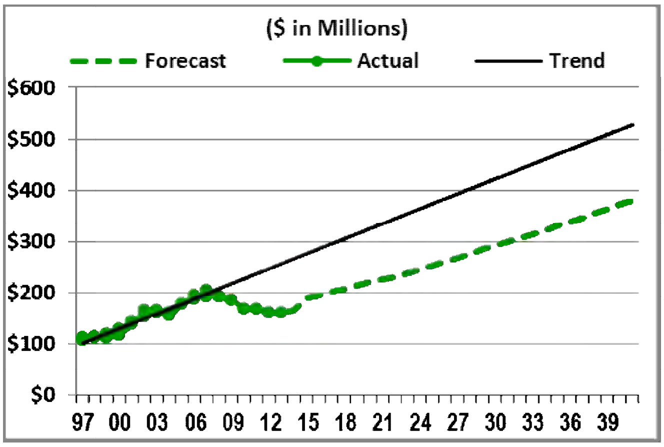


Revenue Gap

Since FY07-08, the City has suffered significant revenue losses due to the deteriorated local economy. Total ongoing General Fund revenues have dropped from approximately $192.9 million in FY07-08 to $157.7 million in FY12-13. Even with enactment of the proposed 0.75% sales tax, FY14-15 revenues would total $189.9 million, which is still below the FY07-08 level.

Figure 10 compares the linear trend based on actual revenues from FY96-97 through FY06-07 (less one-time budget fixes in FY08-09 and FY10-11) to the forecasted revenues (including the proposed sales tax) and indicates there is approximately a $90 million "revenue gap" between forecasted revenues and the expectation of what revenues would have been based on that historical revenue growth. Program and compensation level decisions in the late 1990s to the mid-2000s were based on those earlier revenue expectations. The magnitude of this gap, and that fact that it continues to grow, has created havoc with the General Fund budget.

Figure 10. General Fund Revenue Gap between Reality and Pre-Recession Expectations



It is important to note that actual revenues have yet to rebound to pre-recession levels, and based on projected trends will not reach such levels until approximately 2020. It is unlikely that the City will ever achieve the trend level of growth assumed in the pre-recession period. Many of the expenditures, such as all the debt obligations taken on during this period, assumed that this aggressive trend line of growth would be achieved, and this failure is at the heart of the bankruptcy.

Baseline and Fiscal Stabilization Expenditures

This widening gap in ongoing revenues took place against a background of multi-year labor agreements which included significant cost escalators. Initially, the City used reserves and other sources of one-time funding to maintain solvency. However, such alternatives were exhausted over FY09-10 and FY10-11. Consequently the City was forced to make severe reductions in compensation, staffing and services. Projected salary and benefit costs have fallen from over $147.1 million in FY07-08 to $107.2 million in FY12-13. This reduction has been accomplished by a combination of negotiated compensation reductions, service and staffing reductions and imposed reductions via a finding of fiscal emergency, resulting in budget reductions totaling $90 million enacted over the three-year period of FY09-10 through FY11-12.

Staffing Levels – Table 2 shows the major declines in City staffing levels since FY08-09. Highlights are as follows:

- General Fund sworn police officers were reduced by 98 positions or 25% (another 22 officers are paid by grants which expire at the end of FY11-12; the City must retain these positions for three years and the resulting funding gap is part of the General Fund shortfall).
- General Fund fire department staffing was reduced by 30%.
- General Fund non-safety department staffing was reduced by 43%.

Table 2. General Fund Staffing Change between FY08-09 and FY11-12

(Full Time Equivalents)	08-09	09-10	10-11	11-12	Chng from 08-09	Percent Change
Police-sworn	398	312	292	300	(98)	-25%
Police-other	232	207	199	185	(47)	-20%
Fire	253	265	226	177	(76)	-30%
Other Departments	471	302	268	269	(202)	-43%
Total Before Grants	1,354	1,086	985	931	(423)	-31%
Police Grants	6	17	31	25	19	317%
Total After Grants	1,360	1,103	1,016	956	(404)	-30%

The *baseline* section of the budget forecast is based on a continuation of FY13-14 staffing levels with no position changes to any departments thereafter. The forecast assumes that upon expiration of current police grant funding that the General Fund assumes the cost of the affected positions, to avoid a reduction in safety staffing.

The *fiscal stabilization* section of the forecast includes implementation of the Marshall Plan for augmented public safety services, which adds 120 sworn officers over three years starting in FY14-15, and associated non-sworn positions. Table 3 shows the change in staffing including the adopted budgets for FY12-13 and FY13-14 through the implementation of the Marshall Plan.

Table 3. General Fund Staffing Levels between FY12-13 and FY17-18 including Marshall Plan

(Full Time Equivalents)	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Police-sworn	319	321	361	401	441	441	441	441	441
Police-other	183	184	198	199	201	201	201	201	201
Fire	175	177	177	177	177	177	177	177	177
Other Departments	268	271	271	271	271	271	271	271	271
Total Before Grants	945	953	1,007	1,048	1,090	1,090	1,090	1,090	1,090
Police Grants	26	26	26	26	26	26	26	26	26
Total After Grants	971	979	1,033	1,074	1,116	1,116	1,116	1,116	1,116

Marshall Plan costs are shown in Table 4, and include (1) all labor costs net of vacancy savings, including pension, benefits, overtime and compensated absences, (2) higher costs of supervisory positions needed for such an increase in workforce, (3) support positions required for records management and crime analysis, (4) support of the Ceasefire program upon expiration of current grant, (5) expansion of the Peacekeeper program, (6) expansion of code enforcement and neighborhood “blitz teams”, and (7) creation of an Office of Violence Reduction to monitor overall Marshall Plan implementation.

Table 4. Projected Costs of Marshall Plan (FY14-15 through FY 23-24)

($ in 000)	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24
Sworn Officers	6,252	12,284	18,477	18,776	19,914	21,063	22,327	22,781	23,246	23,714
Violence Reduction Off.	250	255	260	265	271	276	282	287	293	299
Records Assistants	129	197	334	341	348	355	362	369	377	384
Crime Analysts	395	403	411	419	428	436	445	454	463	472
Ceasefire Program	113	115	118	120	122	125	127	130	132	135
Peacekeeper Program	500	510	520	531	541	552	563	574	586	598
Code Enforcement	807	202	-	-	-	-	-	-	-	-
Neighborhood Team	500	510	520	531	541	552	563	574	586	598
Totals	8,945	14,476	20,641	20,982	22,165	23,359	24,669	25,170	25,682	26,199

Compensation and Benefits – The forecast assumes that employees continue to receive merit increases where applicable (i.e., employees not already at top step) which results in an aggregate increase of approximately 1.2% in compensation annually. In an effort to remain at least marginally competitive with the City’s labor market, the forecast assumes salary cost-of-living increases (COLAs) at 2% annually starting in FY15-16, and the costs of pension and other benefits reflect this increase. Overtime costs and workers comp contributions (a much smaller aggregate cost than compensation and benefits) also increase by 1.2% annually, because they are a direct function of overall compensation.   Health contributions are also projected to increase by 2% annually, starting in FY14-15.

Retirement Costs – Stockton’s retirement costs include two components, the pension program and the separate medical insurance program for retirees. By far, the biggest unfunded liability was found in the retiree medical program. When I arrived in July, 2010, the unfunded actuarial accrued liability was $544 million. By comparison, the actuarial value of unfunded liability for the

California Public Employees Retirement System (CalPERS) for June 30, 2011 was $172 million. Our strategy for restructuring revolved around the dual goals of achieving radical cost reductions while maintaining a viable workforce. Many pundits have not appreciated the key difference between chapter 9 and other chapters of the bankruptcy code. Private sector corporations can be dissolved under bankruptcy, while cities must continue providing essential health and safety services.

Virtually all public sector jobs include a defined benefit retirement plan. Among California cities almost all (97%) contract with CalPERS, as does Stockton, and over 99% of city employees are enrolled in CalPERS or an equivalent program. Only a few of the very largest cities operate their own pension systems, which tend to mirror CalPERS or the very similar county defined benefit pension programs (1937 Act counties). In any event, at this time a CalPERS pension is virtually a given in California public agency employment. For this reason Stockton has taken the position that it will reform and reduce the costs of its pension program along with other post-employment benefits, but retain the basic CalPERS pension which is crucial to the City's ability to recruit and retain a quality workforce. These costs are projected on the basis of a forecast of future PERS rates prepared by the Segal Company (retirement actuaries) which incorporate the following assumptions and reform actions already taken by the City:

- Recently-implemented rate smoothing and amortization changes will increase rates in the near-term but lower them in the long-run, as unfunded liability costs will be paid off under a fixed schedule instead of being continually rolled over on a 30-year basis (a more conservative approach by CalPERS).
- A reduction of 0.25% in the PERS discount rate for interest earnings which increases rates (this has not yet been enacted, but a 0.5% reduction was proposed in 2012 by CalPERS staff and the board only implemented half of it at that time). (This is a good example of the conservative approach we have taken in developing the fiscal model.)
- Lower City payroll in recent years than CalPERS has projected, which increases the unfunded liability portion of the employer rate. (This impact will be mitigated after the Marshall Plan is implemented, as it will increase the payroll base on which the unfunded rate is computed, thus reducing the unfunded rate from what it would otherwise have been.)
- Higher costs from improved mortality and other demographic changes.
- The anticipated savings from Public Employee Pension Reform Act (PEPRA) changes, as well as the two-tier benefit plans implemented by the City.

Stockton's retirement reforms, achieved as a result of difficult labor negotiations and pre- and post-bankruptcy mediation, has produced a number of cost reductions with retirees and employees. To understand the complete retirement cost picture in Stockton one needs to understand first the population of existing retirees. These can be categorized into roughly two groups:

- The first and more senior retiree group consists of those that retired under benefit packages prior to enhancement in the early 2000's. This category receives on average

$24,000 per year in benefits and did not receive a retiree medical benefit. We do not propose a change in overall benefits to this group.

- The second retiree group consists of those that retired under the more enhanced programs provided in the early 2000's. They are younger in age and receive an average PERS benefit of $51,000 per year and a medical benefit worth $26,000 per year. Most of this group does not receive Social Security from their Stockton employment. The City reduced and ultimately stopped paying medical premiums while in bankruptcy and we propose eliminating the retiree medical benefit, for an approximately 30% reduction in this group's overall benefits.

For current employees the medical post retirement package has also been eliminated and the following pension reforms have also been instituted. Their total loss in retirement benefits ranges from 30-50% or more when you add the future value of the loss of retiree medical benefits.

- Employees agreed to pay 100% of the employee's share of PERS (7% of salary for miscellaneous employees and 9% for safety employees) which results in immediate savings. This also had the impact that the legal "spiking" of pension benefits through the Employer-Paid Member Contribution (EPMC) benefit of 7-9% higher retirement pay was eliminated for most employees, which will reduce pension costs over time.
- Employees agreed to a new retirement tier that had lower formula, eliminated retirement credit for sick leave, and eliminated all optional benefits, which will reduce pension costs over time.
- Reductions in compensation were enacted that ranged up to 23%, with the higher range affecting police officers through the elimination of certain "add-pays." Since the CalPERS benefit formula relies on final compensation, this reduces their future pension benefit. This also reduces PERS contributions due to lower payroll, for immediate savings, and in the long-run will reduce pension costs due to lower retirement income.

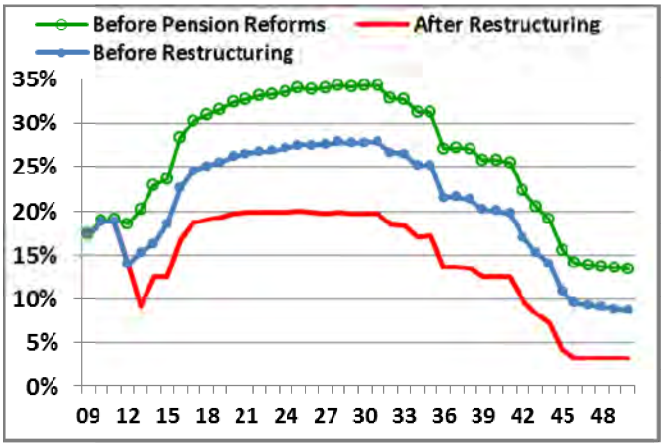
Future employees (after January 1, 2013) lost all the above and are subject to the new retirement reforms instituted on January 1. Their total reduction in benefit is arguably up 50-70% for most new hires and higher for some types of new hires when you combine the CalPERS reductions and the loss of future retiree medical benefits. Again, these employees will not be eligible for Social Security benefits from their Stockton employment.

To put all this in perspective, Figure 11 compares what General Fund total retirement costs[1] would have been as a percentage of total General Fund expenditures, before the pension cost reductions from the City reforms cited above, and with and without the restructuring savings from elimination of retiree medical benefits. The total General Fund dollar savings from FY12-13 through FY49-50 from the City pension reforms is projected to be $659 million, and the General Fund portion of savings from the elimination of retiree medical benefits for both retirees and

[1] The pension portion of total retirement costs includes baseline PERS costs (before salary COLAs), the impact of the 2% salary COLAs under fiscal stabilization, and pension costs attributable to the higher Police staffing under the Marshall Plan.

employees not yet retired is projected to be $812 million over the same period, for a total retirement-related savings to the General Fund over this period of $1.47 billion.[2]

Figure 11. Total General Fund Retirement Costs as a Percent of Total Expenditures



The net result of these changes is that the General Fund is *not* going to be overwhelmed by retirement costs. From FY08-09 through FY11-12, before restructuring, total retirement costs averaged 17% of total General Fund expenditures. For FY12-13 through FY30-31, after restructuring and pension reforms and CalPERS rate adjustments, that average is projected to be 18%. And for FY31-32 through FY49-50 the projected decline in PERS rates will reduce total retirement costs to an average of 10% of total General Fund expenditures, falling to below 5% by FY44-45.

Other Pay and Benefits – Incorporates phase-out of certain benefits and increases other costs in accordance with salary growth.

Compensated Absences – The baseline forecast includes payment of compensated absences in accordance with current labor agreements, including vacation leave at termination (required by state law), holiday leave, and a short-term provision for payment of specified amounts of sick leave at termination for prior retirees. The City used to cash out a portion of unused sick leave upon leaving employment but this was ceased as part of new labor agreements. This was the reason for large cash outs in the past.

Vacancy Savings – The baseline budget assumes a 1% vacancy rate in FY13-14, increasing to 2% in FY14-15, and 3% for FY15-16 and thereafter. The fiscal stabilization section costs for the Marshall Plan are net of vacancy rate savings at the same rates.

Services and Supplies – The baseline forecast assumes 1.5% annual increases in the costs for internal services-equipment, general liability insurance, utilities, maintenance/repair services, labor/legal services, tax collection, election and general expenses.

[2] The $812 million portion of this total retirement-related savings is the General Fund's 55% share of the $1.538 billion total retiree medical savings from retirees and employees, described further on page 19.

The fiscal stabilization section includes $1 million in additional annual contributions to internal services funds to gradually reduce the large negative internal service fund balances, e.g., Workers Compensation, and to replace old information technology systems.

Program Support – The baseline forecast assumes continuation of General Fund support for Library, Recreation, Golf and Entertainment Venues with growth in accordance with the overall rate of increase in baseline personnel expense. The costs for RDA Successor Agency support, marina support, capital outlay and grant match are held constant over time. Supplemental administrative building rental costs are budgeted with 8% escalators every four years. A five-year program of support for the Development Services Fund ends in FY17-18.

Debt Service – The baseline forecast assumes the original amortization over time of existing bonds and settlement payments, offset by projected available contributions from other eligible funds. (Reductions in debt service are reflected under restructuring savings.)

Mission Critical Spending Needs – The fiscal stabilization section contains a line for “mission critical” spending, i.e., an allowance to fund unmet needs, such as replacing the 22-year old financial systems, making needed administrative building improvements, providing a local match for Measure K street maintenance costs, increasing deferred maintenance contributions, restoring a greater portion of the current $40 million deficit in the Workers Comp Fund, and making creditor payments under the plan of adjustment. To partially address these needs, the forecast builds in $16 million over the two-year period of FY14-15 and FY15-16, and $500,000 annually thereafter until the balance exceeds the dollar amount equal to 15% of total expenditures[3], when the amount over 15% is contributed to mission critical spending needs. Until the fund balance exceeds this threshold, such unmet needs will remain significant.

Contingency – The baseline forecast budgets $2 million for contingencies annually.

Treatment of Creditors in the Plan of Adjustment

In Stockton, bankruptcy was triggered by a combination of the substantial reductions in revenues caused by the great recession, and a variety of long term obligations for debt, retiree medical and labor compensation, which in many cases was structured to increase over time. The expenditure load for these obligations was just too much for the City to handle, while still maintaining minimal service levels. During AB 506 and bankruptcy mediation the City has made good progress in restructuring a number of these obligations. We were able to reach agreements with all the organized labor groups, with retirees concerning medical insurance and with a number of other creditors including some involving debt obligations.

The remaining creditors largely center on obligations for debt service on long-term bonds. Negotiations continue as of this writing, but it is important to note that through difficult and painful negotiations, we have collectively eliminated much more that what is waiting to be resolved in this case. As just one example, the retiree medical obligation was estimated to have a total cost in future dollars of $1.538 billion for all funds. This has been totally eliminated with

[3] The Government Finance Officers Association recommends a General Fund reserve level equal to two months of average operating expenditures, which would be 16.67%.

this plan. When you add other compensation reductions agreed to in the new MOU's, the total savings approach $2 billion through 2050.

Most of the City's General Fund debt is structured as lease/leaseback obligations. Absent voluntary agreements on restructuring, bankruptcy forces the City to choose between accepting each of its lease obligations in total or rejecting such leases. For the pension obligation bonds, there is no lease and the obligation is unsecured.

In cases where the City has been able to secure voluntary agreements with creditors, the plan of adjustment hews to that agreement. Examples of this are the Ambac obligation and the treatment of retiree health insurance claims outlined in the unsecured creditors section of the plan of adjustment.

In cases where the City has been unable to secure an agreement, the plan of adjustment provides for rejection of the leases, UNLESS, the obligation concerns an essential facility of the City. In such cases, the City has no choice but to assume the lease or other obligation and pay the entire obligation in full, unless an agreement can be reached. The best example of the former treatment would be the Stewart/Eberhardt Building (SEB) debt. Because this debt obligation is secured by the SEB building and because this building is essential to City operations and probably has a value at least as high as the amount of the bonds, we have always assumed that in a non-consensual plan of adjustment the obligation would be paid in full. This is a crucial difference between the plan of adjustment and the AB 506 Ask of over a year ago. In the Ask we did request restructuring of this debt (and all other debt) but that was in the context of voluntary negotiations. Our internal budget calculations have always included the assumption that this obligation would be paid as a worst case estimate.

An example of the latter treatment, which is applicable in cases where there is no security or the security does not relate to public safety or core City operations, would be the 2009 Capital Improvement Bonds. This is a secured obligation (Oak Park and two golf courses), but it could be argued that the golf courses are neither very valuable from a market value point of view nor essential to the operations of the City. The property cannot be sold by the creditor, and while the creditor could chose to operate the facilities, zoning does not allow alternative uses for the facilities. Since our attempts at a negotiated settlement with respect to this obligation have thus far not been successful, the plan of adjustment provides that the applicable leases must be rejected. As a result, if it chooses to do so, the creditor could take over possession and operation of the facilities. However, the creditor cannot sell the properties because it will not own them. Neither can the creditor use them for other purposes, due to zoning and use restrictions. The City's only other alternative would have been to pay most of the debt service out of the General Fund, causing additional service reductions or reducing our commitment to the Marshall Plan on Crime. This lease is proposed to be rejected because thus far the City has been unable to reach a negotiated settlement that does not unravel the City's General Fund services or commitment to the Marshall Plan, and that is acceptable to the impacted creditors. Assuming these leases and paying full debt service is not a viable option within the City's budget constraints.

The City does not view these results as desirable or optimal. Rather they are reflective of the binary choices we face in developing the plan of adjustment. We do not believe the creditors will find such treatment appropriate either, and both sides should continue to negotiate a better solution. However, since the City is determined to exit chapter 9, which is expensive and distracting, we had to develop a plan of adjustment which was both legally sound and financially prudent even without voluntary restructuring.

Therefore the plan of adjustment is in many cases a worst case, but financially prudent approach. Details on the plan of adjustment treatment on various obligations are reviewed below.

Restructuring Treatment and Savings

The restructuring section of the forecast includes reductions in expenditures not yet defined as permanent that require the chapter 9 process to play out: retiree medical benefits, debt obligations, legal settlement payments, and sports team agreements. Approximately $39.6 million of the $46.4 million in potential labor savings identified in the AB 506 process for FY12-13 through FY20-21 (85% of the total) already have been implemented through meet and confer negotiations facilitated by the AB 506 and bankruptcy mediators, and these savings are incorporated into the baseline personnel costs. In addition, the $90 million in past compensation and service cuts that were enacted by the City are assumed to stay in effect and to gain in value of avoided costs over time. The following are the remaining areas of anticipated restructuring savings:

- Retiree Medical Reductions – After settlement payments in FY13-14, 100% of retiree medical expenses are eliminated. The loss of this medical benefit is worth approximately $26,000 per retiree per year, or $600,000 over a lifetime (not adjusted for inflation). In aggregate, the City estimates the total liability for all funds of these former benefits to be $538 million; this will be eliminated through chapter 9. The value of retiree medical obligations for employees yet to retire is approximately $1 billion for all funds; this was eliminated through new labor agreements last year. The total savings for employees and retirees through the life of the program is $1.538 billion. Table 5 reflects the annual total of retiree medical savings (including program administration and other non-benefit costs) for the General Fund only.
- Debt Reductions – These are based on the following actions relative to each debt amount:
  - 2003 Certificates of Participation – The agreement previously reached with Ambac restructures the amounts that would have otherwise been absorbed by the General Fund, and provides a mechanism for subsequent General Fund reimbursement. The lease payments on these bonds ($12.6 million outstanding), were restructured because (a) the collateral for these bonds consisted of Maya Angelou Library, the Main Police Facility and three fire stations, which are essential facilities and therefore had to be retained by the City, and (b) our estimation is that the value of the collateral was at least equal to the amount of the debt. Ambac is at risk for a potential haircut of up to 19.5% if

tax increment levels prove insufficient to pay debt service. However, since tax increments are pledged to debt service, if assessed values grow as projected, Ambac would not suffer a haircut (and would not even in a cram down).

- 2004 Arena Lease Revenue Bonds (LRBs) – The City accepts lease payments on these bonds ($45.1 million outstanding), which helped pay the costs of constructing the arena. A preliminary term sheet agreement has been reached with NPFG, the bond insurer for this issuance, along with agreements on the other bonds insured by NPFG relating to the parking garages and the SEB facility. Based on our preliminary agreement with NPFG the restructured debt should be fully serviced by tax increment revenues, except in the eventuality that our relatively conservative assumptions concerning assessed valuation growth are not achieved. In this unlikely eventuality some General Fund liability would be possible, but it would be much reduced from the current situation. While we fully expect to consummate the agreement, the alternative would have been to reject the lease. NPFG would then have the right, but not the obligation, to take control of the Arena for the remaining lease term as the pledged collateral for these bonds. Since the City would no longer have been able to perform pursuant to the license agreements, the subsidy for arena operations and the Thunder sports team would end. NPFG could choose whether or not to continue to operate the facility and in order to remain in the facility, the Thunder would have to negotiate a new agreement with NPFG. However, since the debt payments were already covered by a dedicated revenue stream outside the General Fund, we decided to reach agreement to keep control of the Arena.
- 2004 Parking LRBs – Under the preliminary agreement with NPFG the City basically accepts the leases relating to these bonds ($31.6 million outstanding) which paid for the Coy, Market and Arena garages. Under this agreement control of the garages, which NPFG had previously took possession of, would revert to the City. Payments to satisfy most of this debt obligation would be provided to NPFG from the net revenues of a new parking enterprise the City will create to take over operation of all parking assets in the central area of the City. Via a combination of contracting for operation of parking facilities and implementation of capital improvements, net revenues from parking will increase above their current levels, allowing for payment of the bulk of the obligation over an extended time period. Using parking revenues to pay this obligation will shield the General Fund from exposure. Obtaining control of the three garages, combined with a contract operations approach, will allow the City to achieve economies of scale in operations, reducing ongoing expenditures, and maximizing overall revenues. Should the agreement with NPFG not be finalized the City would have to revert to rejection of these leases. With regard to the parking garages this result would not be too much of a problem, because the garages would continue to be open to the public as they have been since NPFG took control. However, this result would have threatened the Arena agreement, which requires NPFG's cooperation.

- <u>2006 LRBs</u> – The City will assume the lease relating to these bonds ($12.1 million outstanding), which built the SEB parking garage. The SEB houses essential City services, so these bonds will not be impaired and the General Fund will continue to make $900,000 annual payments on these bonds, which are reimbursed by the Parking Fund and Police Public Facilities Fee (PFF) Fund, so there is no net impact on the General Fund.
- <u>2006 Dept of Boating and Waterways (DBW) Loan</u> – There is no enforceable General Fund obligation to pay this state loan ($10.8 million outstanding), which funded marina improvements. This loan was never enforceable against the General Fund given its structure as a debt obligation, due to the constitutional debt limit and the lack of voter approval. The state does have a lien on revenues from the Marina, which requires a subsidy of approximately $160,000 per year from the City. Since the City cannot repay this loan from Marina revenues or the General Fund the State could take over operation of the facility. Indeed the State does operate numerous marina facilities through its Parks Department into which the Department of Boating and Waterways was recently merged. Very recently the State has indicated this may be a preferred option. The General Fund saves $685,000 annually from elimination of this debt service payment. If the state elects to take over operations of the facility it would eliminate the need for a City operational subsidy and this would increase the annual savings to the General Fund by $160,000. Negotiations with the state concerning this obligation continue.
- <u>2007 Pension Obligation Bonds (POBs)</u> – These bonds ($124.3 million outstanding) refinanced unfunded liability due to CalPERS. These bonds are insured by Assured Guaranty. They are an unsecured creditor, in that there is no collateral pledged to the debt. As this document was being finalized the City was in negotiations with this creditor and had developed the outlines of a negotiated settlement. However the draft term sheet will not be reviewed by executive management at Assured until after this staff report and the associated disclosure statement of plan of adjustment are filed with the Council and the public. (We are informed a review will occur on Monday, September 30.) While we will recommend treatment of this obligation before the Council approves of our plan of adjustment and disclosure statement, at this time we would like to provide time for the negotiations to be finalized, and thus keep treatment of this obligation as an issue to be determined based on the resolution of current negotiations. As covered earlier, our budget model makes provision for a settlement as this is the most conservative posture for the City.
- <u>2007 Variable Rate Demand Bonds (VRDOs)</u> – These bonds ($40.4 million outstanding) paid for acquisition of 400 East Main, which was originally intended to be the new City Hall. Assured Guaranty obtained possession of the building prior to the City filing for bankruptcy through an unlawful detainer action. Under the umbrella of the negotiated settlement discussed above the City also deals with this obligation. Therefore the same discussion regarding allowing time for current negotiations to be resolved applies to this obligation.

- 2009 LRBs for Capital Improvement Projects – The City rejects the lease relating to these bonds ($35.1 million outstanding), which repaid prior City interfund loans used to construct the Police Communications Center, a fire station, parks, and street improvements. The leased property consists of Oak Park, and the Swenson and Van Buskirk golf courses. The General Fund is legally obligated to make the lease payments, but PFFs from the streets, police, fire, and parklands funds were expected to be used as an internal source of funds as available. Annual debt service is approximately $2.9 million. The baseline budget assumes a conservative $500,000 in available PFF revenues (the remainder being required for project funding and payment of reimbursable agreements and fee credits), so under a rejection of leases the General Fund would save $2.4 million annually. If no agreement is reached, Franklin, which owns all of the bonds, could elect to take possession of the leased properties pledged as collateral for the bonds and could choose whether or not to operate those facilities itself. Zoning does not allow alternative uses for the facilities (and for Van Buskirk, the deed granting the property to the City also does not allow for anything except public recreation uses, and contains a reversionary interest). Franklin might elect not to take possession of facilities that operate at a loss. Furthermore they cannot take title of these lands, so they cannot sell them, and sale is prohibited under the obligation provisions. If Franklin elects to take possession of the facilities, the General Fund would no longer incur a subsidy for golf and ice rink operations, resulting in approximately $700,000 in annual savings. Furthermore, we would avoid making $65 million in debt service payments from the General Fund (the baseline budget estimate of debt service in excess of projected available PFF revenues Again, paying this debt service would have caused more service reductions or a reduced commitment to the Marshall Plan on Crime. If Franklin does not elect to take possession of the facilities, then the City would be permitted, but not required, to continue to operate them. We will continue and try to reach a negotiated settlement with Franklin, but not at the expense of further service reduction or backtracking on commitments to the Marshall Plan on Crime.

- Other Reductions – These savings are from seven sources, and some reflect negotiated agreements, notably with the Marina Towers plaintiffs, Thunder hockey team and police association:
  - Settlement with Police Officer's Association - The Stockton Police Officers Association and the City agreed that their claims were valued at approximately $8.5 million for compensation reductions imposed by the City in 2010 and 2011 as part of the City fiscal emergencies. The parties have agreed to a settlement of 44 hours of paid time off for each SPOA employee who was employed by the city as of June 30, 2012.
  - Sick Leave Buyout - Employees who left city employment between February 17, 2012 and June 30, 2012, may have claims for payment of unused sick leave

hours that were not made at that time. Former employees with these claims will be treated in the same manner as other claims in their class.

- Jarvis Settlement - These annual payments are due from the General Fund to the Water and Wastewater funds as the result of a settlement regarding the City's long-standing former practice of charging utility funds payments in lieu of taxes. The General Fund saves $1.1 million annually through 2040, for a total of $31.6 million. Jarvis has not participated in negotiations, or complained about this treatment, which is strictly internal to the City, but important to the General Fund.
- Marina Towers Settlement – The City has negotiated an agreement with the Marina Towers plaintiffs to substitute excess land (worth $973,500) for the $1,875,000 in remaining payments ($312,500 annually through FY17-18). This eminent domain lawsuit involved a portion of the ballpark that could have reverted to the plaintiffs in the absence of a settlement.
- Price Settlement – The City will make no further payments under this settlement of an inverse condemnation case involving downtown area single-room occupancy hotels, relating to payment of relocation costs and production of low income housing units. Obligations due have been in dispute and no General Fund costs had been budgeted.
- Main Hotel – The City will not pay the remaining $500,000 payment due related to a redevelopment restoration project, which reduces the level of redevelopment subsidy required of the General Fund.
- Sports Teams – Restructuring savings from the AB 506 Ask assumes a reduction of approximately $500,000 annually in license agreement costs for the Ports baseball team and Thunder hockey team through the end of the current agreements in 2026. The City has been able to reach a tentative agreement with the Thunder, which will decrease City costs and increase City revenues associated with Thunder operations. Negotiations with the Ports have not been successful to date and the City will be seeking to reject the agreement and impose new terms to reduce the level of subsidy absorbed by the City.

- In addition to actions implemented through the chapter 9 process, the City would undertake the following actions:
  - Property Sales – The City has identified parcels estimated at $6 million in value that are projected to be sold over the next six years.
  - Efficiencies – The City has initiated a series of studies designed to reduce costs through efficiencies, alternative service delivery or increased cost recovery. The projected annual savings start at $2.5 million in FY 14-15 and increase to $3 million by FY16-17.
  - Measure A – This proposed 0.75% transactions and use tax requires majority voter approval on the November 5, 2013 ballot. It is projected to raise approximately $28 million annually, starting with a quarter of that amount received at the close of FY13-14.

- o <u>Staffing and Service Cuts</u> – While the $90 million in cuts previously enacted would remain in effect, there are no further budget cuts incorporated into the plan of adjustment due to the City's current level of service insolvency. However, failure of the tax to pass would force an additional $11 million in ongoing budget cuts to make up for the loss of new revenue, even if the Marshall Plan is not implemented.

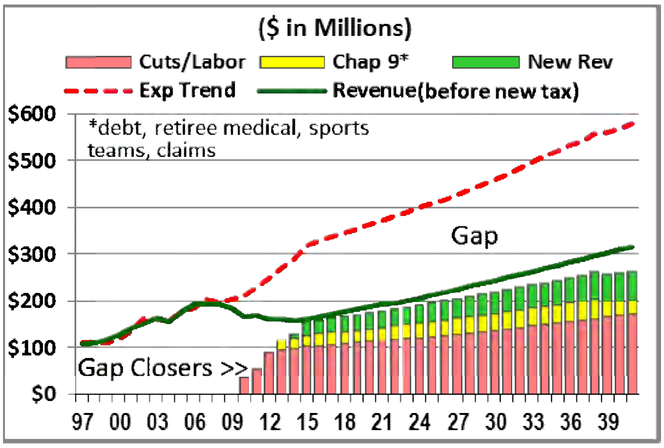
Table 5 shows the total restructuring savings assumed by the City from the above sources:

Table 5. Projected Restructuring Savings (FY13-14 through FY20-21)

($ in 000)	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Retiree Medical Reductions	9,903	10,751	11,653	11,887	12,674	13,360	14,195	15,029
Debt Reductions	13,968	13,580	13,585	13,779	12,229	11,838	12,169	11,889
Other Reductions	1,440	1,940	1,940	1,940	1,940	1,627	1,627	1,627
Subtotal Chap 9 Restructuring	25,311	26,270	27,177	27,605	26,843	26,825	27,991	28,545
Sale of Surplus Property	-	500	500	1,250	1,250	1,250	1,250	-
Efficiency Savings	-	2,500	2,500	3,000	3,000	3,000	3,000	3,000
New Revenue-Sales Tax	6,804	27,979	28,777	29,813	30,886	31,998	33,150	34,310
Service & Staffing Reductions	-	-	-	-	-	-	-	-
Total Restructuring	32,114	57,249	58,954	61,668	61,979	63,073	65,391	65,855

Figure 12 shows the projected gap between projected revenues without Measure A and the pre-budget cut level of expenditures including the Marshall Plan, and how this gap is filled through the combination of prior budget cuts and future efficiencies, chapter 9 restructuring and increased revenue.

Figure 12. Closing the Gap between General Fund Expenditure Trend and Available Resources



Conclusion

The General Fund's Long-Range Financial Plan meets the three tests of solvency:

- It is cash solvent. Balances will be adequate to pay bills when they come due.
- It is budget solvent. The budgets are balanced with all spending categories accounted for, including compensated absences and internal service contributions. It will require continued fiscal discipline to prevent excess spending growth between now and when the fund balance reaches its minimal level in the mid-2020s, to avoid reducing fund balance at a faster pace. Fund balance shows excellent growth after this period, but these far out-year projections are subject to the most uncertainty in the model, simply because of the nature of such a long range projection, so the projection should be viewed with caution.
- It provides minimal service solvency. The Marshall Plan restores a significant amount of police services to the community, and raises the sworn officer staffing level from 1.16 per 1000 residents to 1.6 per 1000. In the near-term, no additional service level improvements can be funded and maintenance and technology investments remain low. However, by the late 2020s, improving reserve levels will allow for additional commitments to service levels, including a second phase of police staffing increases, and higher maintenance levels.

EXHIBIT A

CITY OF STOCKTON LONG-RANGE FINANCIAL PLAN (FY11-12 to FY20-21, Dollars in Millions)

	GENERAL FUND	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	26.38	26.28	26.39	27.04	28.13	29.39	30.71	32.10	33.54	34.88
4	In-Lieu of Motor Vehicle Fees	17.58	17.31	17.52	17.95	18.67	19.51	20.39	21.31	22.27	23.16
5	Subtotal Property Taxes	43.96	43.59	43.90	45.00	46.80	48.90	51.10	53.40	55.81	58.04
6	Sales Taxes										
7	75% Point of Sale	27.73	28.33	29.08	29.90	30.75	31.86	33.00	34.19	35.42	36.66
8	25% County ERAF Backfill	8.39	9.94	9.78	10.18	10.46	10.62	11.00	11.40	11.81	12.22
9	Proposition 172	1.18	1.27	1.31	1.34	1.38	1.43	1.48	1.53	1.59	1.65
10	Subtotal Sales Taxes	37.30	39.54	40.17	41.41	42.59	43.91	45.49	47.12	48.82	50.53
11	Utility Users Tax										
12	Water	3.16	3.25	3.26	3.29	3.34	3.39	3.44	3.49	3.54	3.59
13	Electric & Gas	17.11	17.06	17.60	17.99	18.26	18.53	18.81	19.09	19.38	19.67
14	Cable	1.95	2.33	2.36	2.36	2.39	2.43	2.47	2.50	2.54	2.58
15	Telecommunications	9.29	9.15	8.98	8.80	8.93	9.06	9.20	9.34	9.48	9.62
16	Subtotal Utility Users Tax	31.50	31.79	32.19	32.43	32.92	33.41	33.91	34.42	34.94	35.46
17	Franchise Tax										
18	PG&E	1.86	1.84	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.19
19	Cable/Video	3.11	2.20	2.24	2.22	2.26	2.31	2.36	2.40	2.45	2.50
20	Waste Haulers	7.50	7.55	7.52	7.63	7.79	7.94	8.10	8.26	8.43	8.60
21	Subtotal Franchise Tax	12.46	11.60	11.67	11.80	12.04	12.28	12.52	12.77	13.03	13.29
22	Other General Revenues										
23	Business License Tax	8.92	9.13	8.99	9.08	9.22	9.35	9.49	9.64	9.78	9.93
24	Hotel/Motel Tax	1.93	1.98	1.95	1.97	1.99	2.01	2.03	2.05	2.07	2.09
25	Document Transfer Tax	0.60	0.46	0.50	0.51	0.51	0.52	0.53	0.54	0.54	0.55
26	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27	Interest Income	0.05	0.02	0.02	0.28	0.35	0.31	0.30	0.28	0.26	0.24
28	Subtotal Other General Revenues	11.65	11.73	11.61	11.99	12.21	12.34	12.49	12.65	12.81	12.96
29	**Program Revenues**										
30	Fire Contracts	4.79	3.34	3.33	3.26	3.29	3.32	3.36	3.39	3.43	3.46
31	Code Enforcement	4.04	2.82	2.95	3.01	3.04	3.07	3.10	3.13	3.16	3.19
32	Charges for Services	1.91	1.87	1.83	1.84	1.86	1.88	1.90	1.92	1.94	1.96
33	Fines & Forfeitures	1.73	1.27	1.30	1.31	1.34	1.37	1.39	1.42	1.45	1.48
34	Revenues from Other Agencies	0.78	0.85	0.68	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35	Licenses & Permits	0.40	0.38	0.37	0.37	0.38	0.39	0.40	0.40	0.41	0.42
36	Misc Other Revenues	(0.38)	3.03	(0.14)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37	Subtotal Program Revenues	13.27	13.56	10.31	10.40	10.51	10.63	10.75	10.86	10.99	11.11
38	**Interfund Reimbursements**										
39	Indirect Cost Allocation	5.11	4.85	4.72	4.49	4.68	5.14	5.34	5.49	5.67	5.86
40	Refunds & Reimbursements	0.87	0.45	1.33	0.25	0.26	0.26	0.27	0.27	0.28	0.28
41	Rents/Leases/Concessions	2.56	2.72	2.71	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42	Parking Fund - Debt Service	1.58	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
43	Subtotal Reimbursements	10.12	8.86	9.68	8.33	8.52	8.99	9.19	9.36	9.54	9.73
44	**Total General Fund Revenues**	160.27	160.66	159.52	161.35	165.59	170.45	175.46	180.59	185.92	191.11
45											
46	**Salaries & Benefits**										
47	Salaries - Safety (w/ COLA)	34.00	34.23	38.91	39.38	40.64	41.94	43.28	44.66	46.09	47.57
48	Salaries - Non-Safety (w/ COLA)	15.48	15.59	17.72	17.93	18.50	19.10	19.71	20.34	20.99	21.66
49	Salaries - Part time, Temporary	1.05	1.06	1.48	1.50	1.54	1.59	1.65	1.70	1.75	1.81
50	Pension - CalPERS	14.14	14.24	17.75	20.88	28.75	30.82	31.91	33.41	34.95	35.99
51	Health/Dental/Vision-Employee (w/COLA)	8.79	8.85	9.37	9.55	9.75	9.94	10.14	10.34	10.55	10.76
52	Health - Retirees	7.96	9.18	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
53	Workers Compensation	7.16	7.21	7.19	7.27	7.36	7.45	7.54	7.63	7.72	7.81
54	Other Pay & Benefits	6.39	6.44	5.52	5.53	5.57	5.61	5.66	5.71	5.75	5.80
55	Overtime & Standby/Callback	7.61	7.66	7.23	7.31	7.55	7.79	8.04	8.30	8.56	8.83
56	Compensated Absences	3.46	2.74	2.01	2.91	3.06	2.96	3.13	3.31	3.50	3.69
57	Salaries - Safety-Expiring Grants	-	-	-	-	-	2.32	2.39	2.47	2.55	2.63
58	Net Labor Adjust/Reimbursements	-	-	0.94	1.01	1.15	1.20	1.23	1.27	1.32	1.35
59	Budgeted Vacancy Savings	-	-	(1.05)	(2.24)	(3.69)	(3.92)	(4.04)	(4.17)	(4.31)	(4.44)
60	Subtotal Salaries & Benefits	106.05	107.20	116.96	121.79	131.84	138.68	143.30	148.31	153.61	158.51

	GENERAL FUND (cont.)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
61	**Services & Supplies**										
62	Internal Services-Equipment	12.18	13.44	13.51	13.41	13.61	13.81	14.02	14.23	14.45	14.66
63	General Liability Insurance	2.24	3.01	3.37	3.44	3.49	3.54	3.60	3.65	3.71	3.76
64	Utilities	2.49	2.49	2.65	2.69	2.73	2.77	2.82	2.86	2.90	2.95
65	Maintenance & Repair Services	2.14	2.61	2.60	2.63	2.67	2.71	2.76	2.80	2.84	2.88
66	Labor/Legal Services	3.76	6.33	2.20	2.23	2.26	2.30	2.33	2.37	2.40	2.44
67	General Expenses	6.70	8.43	8.90	8.63	8.71	8.79	8.87	8.96	9.09	9.23
68	Tax Collection & Election	2.09	2.34	2.28	2.57	2.61	2.65	2.70	2.75	2.79	2.83
69	Subtotal Services & Supplies	31.61	38.66	35.51	35.61	36.09	36.59	37.10	37.61	38.17	38.74
70	**Program Support for Other Funds**										
71	Library	3.98	3.91	4.00	4.30	4.88	5.08	5.22	5.40	5.58	5.73
72	Recreation	2.76	2.34	2.85	3.06	3.47	3.61	3.72	3.84	3.97	4.08
73	Golf Courses	-	0.50	0.45	0.48	0.55	0.57	0.59	0.61	0.63	0.65
74	Entertainment Venues	2.44	2.64	2.65	2.85	3.24	3.37	3.47	3.58	3.70	3.80
75	RDA Successor Agency	1.81	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76	Downtown Marina	0.05	0.05	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77	Capital Improvements	0.62	0.58	1.29	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78	Administration Building	-	0.16	-	0.84	0.84	0.84	0.91	0.91	0.91	0.91
79	Grant Match	0.04	0.16	0.40	0.40	0.40	0.30	0.30	0.30	0.30	0.30
80	Development Services	0.15	1.00	1.00	1.00	1.00	1.00	-	-	-	-
81	Other	0.25	0.03	-	-	-	-	-	-	-	-
82	Subtotal Program Support	12.09	12.11	13.55	14.41	15.87	16.25	15.69	16.13	16.58	16.96
83	**Debt - Bonds/Other**										
84	Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85	Marina Settlement	-	0.31	0.31	0.31	0.31	0.31	0.31	-	-	-
86	2003 COPs	-	0.13	0.60	0.52	0.51	0.49	0.24	0.20	0.09	-
87	2004 Arena Bonds	-	0.29	0.74	0.66	0.73	0.82	0.49	0.54	0.33	-
88	2006 LRBs-Parking (SEB)	0.77	0.84	0.91	0.91	0.91	0.91	0.91	0.91	0.91	0.91
89	2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90	2007 POBs	5.62	6.25	6.73	6.84	6.95	7.06	7.17	7.29	7.40	7.52
91	2007 VRDLRB - 400 E.Main	0.24	2.59	2.67	2.67	2.67	2.67	2.67	2.67	2.70	2.72
92	2009 LRBs-Pub Facil Bonds/CIP	0.65	1.92	2.42	2.43	2.42	2.42	2.42	2.42	2.42	2.42
93	Debt - Other/Admin	0.42	0.21	0.49	0.49	0.49	0.49	0.49	0.49	0.49	0.24
94	Subtotal Debt	9.51	14.36	16.68	16.64	16.81	16.97	16.51	16.32	16.15	15.62
95	**Contingency**	-	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96	**Total General Fund Baseline Expenditures**	159.25	174.32	184.70	190.45	202.61	210.49	214.60	220.37	226.52	231.83
97	**Surplus(Shortfall) After Baseline**	1.01	(13.66)	(25.18)	(29.10)	(37.02)	(40.04)	(39.14)	(39.78)	(40.60)	(40.73)
98											
99	**Fiscal Stabilization**										
100	Increased Deferred Maintenance	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101	Contributions to Workers Comp ISF	-	-	-	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102	Contributions to Technology/Other ISF	-	-	-	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103	Marshall Plan/Police Services	-	-	-	8.95	14.48	20.64	20.98	22.16	23.36	24.67
104	Mission Critical Spending Needs	-	-	-	8.00	8.00	-	-	-	-	-
105	Repay 2/28/12 Transfers	-	-	-	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106	Total Fiscal Stabilization	-	-	-	19.00	24.53	22.69	23.03	24.21	25.41	26.72
107	**Surplus(Shortfall) After Fiscal Stabilization**	1.01	(13.66)	(25.18)	(48.09)	(61.55)	(62.73)	(62.17)	(63.99)	(66.01)	(67.44)
108											
109	**Restructuring** (Labor included in Baseline)										
110	Retiree Medical Reductions	-	7.05	9.90	10.75	11.65	11.89	12.67	13.36	14.20	15.03
111	Debt Reductions	0.65	11.87	13.84	13.45	13.45	13.65	12.09	11.70	12.03	11.75
112	Other Reductions	-	1.94	1.44	1.94	1.94	1.94	1.94	1.63	1.63	1.63
113	Subtotal Restructuring	0.65	20.86	25.18	26.14	27.05	27.47	26.71	26.69	27.85	28.40
114	Sale of Surplus Property	-	-	-	0.50	0.50	1.25	1.25	1.25	1.25	-
115	Efficiencies/Alt Srvc Delivery/Fees/Other	-	-	-	2.50	2.50	3.00	3.00	3.00	3.00	3.00
116	New Revenue-Sales Tax (Nov-13 ballot)	-	-	6.80	27.98	28.78	29.81	30.89	32.00	33.15	34.31
117	Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118	Total Restructuring	0.65	20.86	31.99	57.12	58.82	61.53	61.84	62.94	65.25	65.71
119	**Surplus(Shortfall) After Restructuring**	1.67	7.20	6.80	9.03	(2.72)	(1.19)	(0.33)	(1.06)	(0.75)	(1.73)
120	Transfer to Bankruptcy Fund	(5.59)	(6.91)	-	-	-	-	-	-	-	-
121	Encumbrance+AB 506 Carryover	(2.71)	2.71	-	-	-	-	-	-	-	-
122	Beginning Available Balance	6.64	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77
123	**Ending Available Balance**	-	3.00	9.80	18.83	16.11	14.91	14.58	13.52	12.77	11.04
124	**Balance as % of Total Expenditures**	0.0%	2.0%	6.1%	10.4%	8.2%	7.4%	7.0%	6.3%	5.8%	4.9%
125	Vacancy Rate (% of Baseline+COLAs)	4.2%	5.9%	1.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

STOCKTON LONG-RANGE FINANCIAL PLAN (FY21-22 to FY30-31, Dollars in Millions)

	GENERAL FUND	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	36.28	37.73	39.24	40.81	42.41	44.04	45.69	47.38	49.09	50.83
4	In-Lieu of Motor Vehicle Fees	24.08	25.05	26.05	27.09	28.15	29.23	30.33	31.45	32.59	33.74
5	Subtotal Property Taxes	60.36	62.78	65.29	67.90	70.56	73.27	76.03	78.83	81.68	84.58
6	Sales Taxes										
7	75% Point of Sale	37.94	39.27	40.65	42.07	43.51	44.98	46.46	47.96	49.47	51.01
8	25% County ERAF Backfill	12.65	13.09	13.55	14.02	14.50	14.99	15.49	15.99	16.49	17.00
9	Proposition 172	1.70	1.76	1.82	1.89	1.95	2.02	2.09	2.15	2.22	2.29
10	Subtotal Sales Taxes	52.30	54.13	56.02	57.98	59.97	61.99	64.03	66.10	68.19	70.30
11	Utility Users Tax										
12	Water	3.65	3.70	3.76	3.82	3.87	3.93	3.98	4.04	4.09	4.15
13	Electric & Gas	19.96	20.26	20.57	20.87	21.18	21.49	21.79	22.09	22.39	22.69
14	Cable	2.62	2.66	2.70	2.74	2.78	2.82	2.86	2.90	2.94	2.97
15	Telecommunications	9.76	9.91	10.06	10.21	10.36	10.51	10.66	10.80	10.95	11.10
16	Subtotal Utility Users Tax	35.99	36.53	37.08	37.64	38.19	38.74	39.29	39.83	40.37	40.91
17	Franchise Tax										
18	PG&E	2.24	2.28	2.33	2.37	2.42	2.47	2.51	2.56	2.61	2.65
19	Cable/Video	2.55	2.60	2.65	2.71	2.76	2.81	2.86	2.92	2.97	3.02
20	Waste Haulers	8.77	8.94	9.12	9.30	9.49	9.67	9.85	10.03	10.21	10.39
21	Subtotal Franchise Tax	13.55	13.83	14.10	14.38	14.67	14.95	15.23	15.51	15.79	16.07
22	Other General Revenues										
23	Business License Tax	10.08	10.23	10.38	10.54	10.69	10.85	11.02	11.18	11.35	11.52
24	Hotel/Motel Tax	2.11	2.13	2.15	2.17	2.20	2.22	2.24	2.26	2.28	2.31
25	Document Transfer Tax	0.56	0.57	0.58	0.59	0.59	0.60	0.61	0.62	0.63	0.64
26	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27	Interest Income	0.21	0.19	0.18	0.19	0.24	0.31	0.40	0.50	0.60	0.73
28	Subtotal Other General Revenues	13.11	13.27	13.44	13.64	13.87	14.14	14.42	14.71	15.02	15.35
29	**Program Revenues**										
30	Fire Contracts	3.49	3.53	3.56	3.60	3.64	3.67	3.71	3.75	3.78	3.82
31	Code Enforcement	3.22	3.26	3.29	3.32	3.35	3.39	3.42	3.46	3.49	3.53
32	Charges for Services	1.98	2.00	2.02	2.04	2.06	2.08	2.10	2.12	2.14	2.16
33	Fines & Forfeitures	1.51	1.54	1.57	1.60	1.63	1.67	1.70	1.73	1.77	1.80
34	Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35	Licenses & Permits	0.43	0.44	0.45	0.46	0.46	0.47	0.48	0.49	0.50	0.51
36	Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37	Subtotal Program Revenues	11.23	11.36	11.49	11.61	11.74	11.88	12.01	12.15	12.29	12.42
38	**Interfund Reimbursements**										
39	Indirect Cost Allocation	6.02	6.19	6.37	6.54	6.73	6.90	7.09	7.30	7.50	7.72
40	Refunds & Reimbursements	0.29	0.29	0.30	0.30	0.31	0.32	0.32	0.33	0.34	0.34
41	Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42	Parking Fund - Debt Service	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
43	Subtotal Reimbursements	9.90	10.07	10.25	10.43	10.63	10.80	11.00	11.21	11.42	11.64
44	**Total General Fund Revenues**	196.44	201.95	207.66	213.59	219.63	225.76	232.00	238.34	244.76	251.27
45											
46	**Salaries & Benefits**										
47	Salaries - Safety (w/ COLA)	49.09	50.66	52.28	53.95	55.68	57.46	59.30	61.20	63.16	65.18
48	Salaries - Non-Safety (w/ COLA)	22.35	23.07	23.81	24.57	25.36	26.17	27.00	27.87	28.76	29.68
49	Salaries - Part time, Temporary	1.87	1.93	1.99	2.05	2.12	2.18	2.25	2.33	2.40	2.48
50	Pension - CalPERS	37.05	38.13	39.21	40.36	40.84	41.95	43.10	44.24	45.40	46.58
51	Health/Dental/Vision-Employee (w/COLA)	10.98	11.19	11.42	11.65	11.88	12.12	12.36	12.61	12.86	13.12
52	Health - Retirees	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
53	Workers Compensation	7.91	8.00	8.10	8.19	8.29	8.39	8.49	8.59	8.70	8.80
54	Other Pay & Benefits	5.85	5.91	5.96	6.13	6.31	6.50	6.69	6.88	7.09	7.30
55	Overtime & Standby/Callback	9.12	9.41	9.71	10.02	10.34	10.67	11.01	11.37	11.73	12.11
56	Compensated Absences	3.91	4.13	4.37	4.62	4.89	5.17	5.48	5.80	5.80	5.86
57	Salaries - Safety-Expiring Grants	2.71	2.80	2.89	2.98	3.08	3.18	3.28	3.38	3.49	3.60
58	Net Labor Adjust/Reimbursements	1.39	1.43	1.47	1.51	1.54	1.58	1.63	1.67	1.71	1.76
59	Budgeted Vacancy Savings	(4.57)	(4.70)	(4.84)	(4.98)	(5.11)	(5.26)	(5.42)	(5.58)	(5.73)	(5.89)
60	Subtotal Salaries & Benefits	163.58	168.78	174.12	179.91	185.06	190.73	196.98	202.68	208.42	214.38

	GENERAL FUND (cont.)	21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31
61	**Services & Supplies**										
62	Internal Services-Equipment	14.88	15.11	15.33	15.56	15.80	16.03	16.27	16.52	16.76	17.02
63	General Liability Insurance	3.82	3.88	3.93	3.99	4.05	4.11	4.18	4.24	4.30	4.37
64	Utilities	2.99	3.03	3.08	3.13	3.17	3.22	3.27	3.32	3.37	3.42
65	Maintenance & Repair Services	2.92	2.97	3.01	3.06	3.10	3.15	3.20	3.25	3.29	3.34
66	Labor/Legal Services	2.47	2.51	2.55	2.59	2.63	2.67	2.71	2.75	2.79	2.83
67	General Expenses	9.37	9.51	9.65	9.79	9.94	10.09	10.24	10.39	10.55	10.71
68	Tax Collection & Election	2.89	2.93	2.97	3.02	3.08	3.13	3.18	3.22	3.29	3.34
69	Subtotal Services & Supplies	39.34	39.93	40.53	41.14	41.77	42.40	43.04	43.68	44.36	45.02
70	**Program Support for Other Funds**										
71	Library	5.89	6.05	6.21	6.39	6.53	6.71	6.90	7.10	7.27	7.46
72	Recreation	4.19	4.30	4.42	4.55	4.65	4.78	4.91	5.05	5.17	5.30
73	Golf Courses	0.66	0.68	0.70	0.72	0.73	0.76	0.78	0.80	0.82	0.84
74	Entertainment Venues	3.91	4.01	4.12	4.24	4.33	4.45	4.58	4.71	4.82	4.95
75	RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76	Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77	Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78	Administration Building	0.98	0.98	0.98	0.98	1.06	1.06	1.06	1.06	1.15	1.15
79	Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80	Development Services	-	-	-	-	-	-	-	-	-	-
81	Other	-	-	-	-	-	-	-	-	-	-
82	Subtotal Program Support	17.42	17.82	18.22	18.67	19.09	19.55	20.02	20.50	21.02	21.48
83	**Debt - Bonds/Other**										
84	Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13
85	Marina Settlement	-	-	-	-	-	-	-	-	-	-
86	2003 COPs	-	-	-	-	-	-	-	-	-	-
87	2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88	2006 LRBs-Parking (SEB)	0.91	0.91	0.91	0.90	0.91	0.91	0.90	0.90	0.90	0.90
89	2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90	2007 POBs	7.64	7.76	7.88	8.01	6.86	7.08	7.17	7.27	7.37	7.46
91	2007 VRDLRB - 400 E.Main	2.76	2.78	2.81	2.83	2.86	2.87	2.90	2.92	2.94	2.95
92	2009 LRBs-Pub Facil Bonds/CIP	2.41	2.41	2.41	2.40	2.40	2.40	2.40	2.40	2.39	2.39
93	Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94	Subtotal Debt	15.77	15.91	16.06	16.19	15.08	15.32	15.42	15.54	15.65	15.75
95	**Contingency**	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96	**Total General Fund Baseline Expenditures**	238.11	244.44	250.93	257.91	263.00	270.00	277.46	284.40	291.44	298.63
97	**Surplus(Shortfall) After Baseline**	(41.67)	(42.49)	(43.27)	(44.32)	(43.37)	(44.24)	(45.46)	(46.06)	(46.68)	(47.36)
98											
99	**Fiscal Stabilization**										
100	Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101	Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102	Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103	Marshall Plan/Police Services	25.17	25.68	26.20	26.72	27.25	27.79	28.34	28.89	29.45	30.03
104	Mission Critical Spending Needs	-	-	-	-	-	-	-	-	-	-
105	Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106	Total Fiscal Stabilization	27.22	27.73	28.25	28.77	29.30	29.84	30.39	30.94	31.50	32.08
107	**Surplus(Shortfall) After Fiscal Stabilization**	(68.89)	(70.22)	(71.52)	(73.10)	(72.67)	(74.08)	(75.84)	(77.00)	(78.19)	(79.43)
108											
109	**Restructuring** (Labor included in Baseline)										
110	Retiree Medical Reductions	15.93	16.83	17.76	18.84	19.85	20.62	21.80	22.31	23.05	23.82
111	Debt Reductions	11.80	10.82	11.26	11.63	10.70	11.13	11.35	10.49	10.60	10.70
112	Other Reductions	1.63	1.63	1.63	1.63	1.63	1.13	1.13	1.13	1.13	1.13
113	Subtotal Restructuring	29.36	29.27	30.65	32.10	32.17	32.87	34.28	33.93	34.78	35.64
114	Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115	Efficiencies/Alt Srvc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116	New Revenue-Sales Tax (Nov-13 ballot)	35.51	36.75	38.04	39.37	40.72	42.09	43.48	44.88	46.30	47.74
117	Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118	Total Restructuring	67.87	69.03	71.69	74.47	75.89	77.96	80.76	81.81	84.08	86.38
119	**Surplus(Shortfall) After Restructuring**	(1.02)	(1.19)	0.17	1.38	3.22	3.88	4.92	4.81	5.89	6.95
120	Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121	Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122	Beginning Available Balance	11.04	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10
123	**Ending Available Balance**	10.02	8.82	9.00	10.37	13.60	17.48	22.40	27.21	33.10	40.05
124	**Balance as % of Total Expenditures**	4.3%	3.7%	3.7%	4.1%	5.3%	6.6%	8.3%	9.8%	11.6%	13.7%
125	Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

STOCKTON LONG-RANGE FINANCIAL PLAN (FY31-32 to FY40-41, Dollars in Millions)

	GENERAL FUND	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
1	**General Revenues**										
2	Property Taxes										
3	Property Taxes	52.60	54.39	56.20	58.04	59.90	61.78	63.68	65.60	67.54	69.49
4	In-Lieu of Motor Vehicle Fees	34.92	36.10	37.31	38.53	39.76	41.01	42.27	43.55	44.83	46.13
5	Subtotal Property Taxes	87.52	90.49	93.51	96.57	99.66	102.79	105.95	109.14	112.37	115.62
6	Sales Taxes										
7	75% Point of Sale	52.56	54.12	55.70	57.30	58.90	60.52	62.15	63.79	65.44	67.09
8	25% County ERAF Backfill	17.52	18.04	18.57	19.10	19.63	20.17	20.72	21.26	21.81	22.36
9	Proposition 172	2.36	2.43	2.50	2.57	2.64	2.72	2.79	2.86	2.94	3.01
10	Subtotal Sales Taxes	72.44	74.59	76.77	78.97	81.18	83.41	85.65	87.91	90.19	92.47
11	Utility Users Tax										
12	Water	4.20	4.25	4.31	4.36	4.41	4.46	4.52	4.57	4.62	4.67
13	Electric & Gas	22.98	23.28	23.57	23.86	24.14	24.43	24.71	24.99	25.27	25.54
14	Cable	3.01	3.05	3.09	3.13	3.17	3.20	3.24	3.28	3.31	3.35
15	Telecommunications	11.24	11.38	11.53	11.67	11.81	11.95	12.09	12.22	12.36	12.49
16	Subtotal Utility Users Tax	41.44	41.97	42.49	43.01	43.53	44.04	44.55	45.05	45.55	46.05
17	Franchise Tax										
18	PG&E	2.70	2.74	2.79	2.84	2.88	2.93	2.97	3.02	3.06	3.10
19	Cable/Video	3.08	3.13	3.18	3.23	3.28	3.34	3.39	3.44	3.49	3.54
20	Waste Haulers	10.58	10.76	10.93	11.11	11.29	11.47	11.65	11.82	12.00	12.17
21	Subtotal Franchise Tax	16.35	16.63	16.90	17.18	17.46	17.73	18.00	18.27	18.54	18.81
22	Other General Revenues										
23	Business License Tax	11.69	11.87	12.05	12.23	12.41	12.60	12.79	12.98	13.17	13.37
24	Hotel/Motel Tax	2.33	2.35	2.38	2.40	2.43	2.45	2.47	2.50	2.52	2.55
25	Document Transfer Tax	0.65	0.66	0.67	0.68	0.69	0.70	0.71	0.72	0.73	0.74
26	Motor Vehicle License	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
27	Interest Income	0.85	0.93	0.96	0.98	1.00	1.03	1.06	1.08	1.11	1.15
28	Subtotal Other General Revenues	15.68	15.96	16.20	16.44	16.68	16.92	17.18	17.43	17.69	17.96
29	**Program Revenues**										
30	Fire Contracts	3.86	3.90	3.94	3.98	4.02	4.06	4.10	4.14	4.18	4.22
31	Code Enforcement	3.56	3.60	3.63	3.67	3.71	3.74	3.78	3.82	3.86	3.89
32	Charges for Services	2.18	2.21	2.23	2.25	2.27	2.30	2.32	2.34	2.37	2.39
33	Fines & Forfeitures	1.84	1.88	1.91	1.95	1.99	2.03	2.07	2.11	2.15	2.20
34	Revenues from Other Agencies	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66	0.66
35	Licenses & Permits	0.52	0.53	0.54	0.55	0.57	0.58	0.59	0.60	0.61	0.62
36	Misc Other Revenues	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)	(0.06)
37	Subtotal Program Revenues	12.57	12.71	12.85	13.00	13.15	13.30	13.45	13.61	13.77	13.93
38	**Interfund Reimbursements**										
39	Indirect Cost Allocation	7.93	8.04	8.27	8.37	8.61	8.42	8.65	8.89	9.01	9.27
40	Refunds & Reimbursements	0.35	0.36	0.36	0.37	0.38	0.39	0.39	0.40	0.41	0.42
41	Rents/Leases/Concessions	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68	2.68
42	Parking Fund - Debt Service	0.90	-	-	-	-	-	-	-	-	-
43	Subtotal Reimbursements	11.86	11.08	11.31	11.42	11.67	11.48	11.73	11.98	12.10	12.37
44	**Total General Fund Revenues**	257.85	263.43	270.05	276.60	283.32	289.68	296.52	303.40	310.21	317.21
45											
46	**Salaries & Benefits**										
47	Salaries - Safety (w/ COLA)	67.26	69.42	71.64	73.93	76.30	78.74	81.26	83.86	86.54	89.31
48	Salaries - Non-Safety (w/ COLA)	30.63	31.61	32.62	33.67	34.74	35.86	37.00	38.19	39.41	40.67
49	Salaries - Part time, Temporary	2.56	2.64	2.72	2.81	2.90	2.99	3.09	3.19	3.29	3.40
50	Pension - CalPERS	45.20	46.34	44.67	45.76	37.49	38.28	39.12	37.12	37.99	38.94
51	Health/Dental/Vision-Employee (w/COLA)	13.38	13.65	13.92	14.20	14.48	14.77	15.07	15.37	15.68	15.99
52	Health - Retirees	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
53	Workers Compensation	8.91	9.01	9.12	9.23	9.34	9.45	9.57	9.68	9.80	9.92
54	Other Pay & Benefits	7.51	7.73	7.96	8.20	8.45	8.70	8.96	9.23	9.51	9.79
55	Overtime & Standby/Callback	12.49	12.89	13.31	13.73	14.17	14.62	15.09	15.57	16.07	16.59
56	Compensated Absences	5.91	5.80	5.86	5.92	5.98	6.04	6.10	6.16	6.22	6.28
57	Salaries - Safety-Expiring Grants	3.72	3.84	3.96	4.09	4.22	4.35	4.49	4.63	4.78	4.94
58	Net Labor Adjust/Reimbursements	1.76	1.80	1.81	1.85	1.75	1.79	1.84	1.84	1.88	1.93
59	Budgeted Vacancy Savings	(5.98)	(6.14)	(6.23)	(6.40)	(6.29)	(6.47)	(6.65)	(6.75)	(6.94)	(7.13)
60	Subtotal Salaries & Benefits	217.91	223.90	227.36	233.56	230.36	236.51	242.58	245.90	252.05	258.39

	GENERAL FUND (cont.)	31-32	32-33	33-34	34-35	35-36	36-37	37-38	38-39	39-40	40-41
61	**Services & Supplies**										
62	Internal Services-Equipment	17.27	17.53	17.79	18.06	18.33	18.61	18.89	19.17	19.46	19.75
63	General Liability Insurance	4.43	4.50	4.57	4.63	4.70	4.77	4.85	4.92	4.99	5.07
64	Utilities	3.47	3.52	3.57	3.63	3.68	3.74	3.79	3.85	3.91	3.97
65	Maintenance & Repair Services	3.39	3.44	3.50	3.55	3.60	3.66	3.71	3.77	3.82	3.88
66	Labor/Legal Services	2.87	2.92	2.96	3.00	3.05	3.09	3.14	3.19	3.24	3.28
67	General Expenses	10.87	11.03	11.20	11.37	11.54	11.71	11.88	12.06	12.24	12.43
68	Tax Collection & Election	3.39	3.44	3.51	3.56	3.62	3.67	3.75	3.80	3.86	3.92
69	Subtotal Services & Supplies	45.70	46.38	47.10	47.80	48.52	49.25	50.01	50.76	51.52	52.29
70	**Program Support for Other Funds**										
71	Library	7.48	7.65	7.66	7.85	7.43	7.61	7.79	7.79	7.99	8.19
72	Recreation	5.32	5.44	5.45	5.58	5.28	5.41	5.54	5.54	5.68	5.83
73	Golf Courses	0.84	0.86	0.86	0.88	0.84	0.86	0.88	0.88	0.90	0.92
74	Entertainment Venues	4.96	5.08	5.08	5.21	4.93	5.05	5.17	5.17	5.30	5.43
75	RDA Successor Agency	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
76	Downtown Marina	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16	0.16
77	Capital Improvements	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58	0.58
78	Administration Building	1.15	1.15	1.24	1.24	1.24	1.24	1.34	1.34	1.34	1.34
79	Grant Match	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
80	Development Services	-	-	-	-	-	-	-	-	-	-
81	Other	-	-	-	-	-	-	-	-	-	-
82	Subtotal Program Support	21.52	21.96	22.07	22.54	21.50	21.94	22.50	22.50	22.99	23.49
83	**Debt - Bonds/Other**										
84	Jarvis Utilities Settlement	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
85	Marina Settlement	-	-	-	-	-	-	-	-	-	-
86	2003 COPs	-	-	-	-	-	-	-	-	-	-
87	2004 Arena Bonds	-	-	-	-	-	-	-	-	-	-
88	2006 LRBs-Parking (SEB)	0.90	-	-	-	-	-	-	-	-	-
89	2006 DBW-Debt - Marina	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68	0.68
90	2007 POBs	7.56	7.66	7.76	7.86	7.96	8.06	9.33	-	-	-
91	2007 VRDLRB - 400 E.Main	2.96	2.98	2.99	2.99	3.00	3.01	3.01	3.01	3.02	3.01
92	2009 LRBs-Pub Facil Bonds/CIP	2.39	2.38	2.37	2.37	2.36	2.36	2.35	2.35	-	-
93	Debt - Other/Admin	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24	0.24
94	Subtotal Debt	15.86	15.06	15.17	15.27	15.37	15.47	16.75	7.41	5.07	3.94
95	**Contingency**	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
96	**Total General Fund Baseline Expenditures**	302.99	309.31	313.69	321.18	317.76	325.17	333.83	328.57	333.62	340.10
97	**Surplus(Shortfall) After Baseline**	(45.14)	(45.88)	(43.65)	(44.58)	(34.43)	(35.49)	(37.31)	(25.17)	(23.40)	(22.90)
98											
99	**Fiscal Stabilization**										
100	Increased Deferred Maintenance	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
101	Contributions to Workers Comp ISF	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75	0.75
102	Contributions to Technology/Other ISF	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
103	Marshall Plan/Police Services	30.25	30.84	31.00	31.60	30.98	31.58	32.19	32.35	33.00	33.67
104	Mission Critical Spending Needs	6.00	10.00	16.00	15.00	30.00	28.00	30.00	34.00	34.00	34.00
105	Repay 2/28/12 Transfers	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
106	Total Fiscal Stabilization	38.30	42.89	49.05	48.65	63.03	61.63	64.24	68.40	69.05	69.72
107	**Surplus(Shortfall) After Fiscal Stabilization**	(83.44)	(88.78)	(92.69)	(93.23)	(97.47)	(97.12)	(101.56)	(93.57)	(92.45)	(92.61)
108											
109	**Restructuring** (Labor included in Baseline)										
110	Retiree Medical Reductions	24.55	25.31	25.99	26.57	26.85	27.38	27.65	27.81	27.81	27.77
111	Debt Reductions	10.81	10.92	11.02	11.13	11.23	11.33	12.60	3.26	0.92	0.91
112	Other Reductions	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	1.13	-
113	Subtotal Restructuring	36.50	37.35	38.14	38.83	39.20	39.84	41.38	32.20	29.86	28.68
114	Sale of Surplus Property	-	-	-	-	-	-	-	-	-	-
115	Efficiencies/Alt Srvc Delivery/Fees/Other	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00
116	New Revenue-Sales Tax (Nov-13 ballot)	49.19	50.65	52.13	53.62	55.12	56.64	58.16	59.70	61.24	62.79
117	Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
118	Total Restructuring	88.68	91.00	93.27	95.45	97.32	99.47	102.55	94.89	94.10	94.47
119	**Surplus(Shortfall) After Restructuring**	5.24	2.22	0.58	2.21	(0.14)	2.35	0.99	1.32	1.65	1.86
120	Transfer to Bankruptcy Fund	-	-	-	-	-	-	-	-	-	-
121	Encumbrance+AB 506 Carryover	-	-	-	-	-	-	-	-	-	-
122	Beginning Available Balance	40.05	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.48
123	**Ending Available Balance**	45.29	47.51	48.09	50.30	50.16	52.51	53.50	54.82	56.47	58.34
124	**Balance as % of Total Expenditures**	15.0%	15.2%	15.0%	15.3%	14.8%	15.3%	15.1%	15.2%	15.3%	15.4%
125	Vacancy Rate (% of Baseline+COLAs)	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%