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Stockton: Bankruptcy Exit Should Move Ahead.

City leaders in Stockton, Calif., are urging a federal judge to let the city exit bankruptcy with a court-approved reorganization plan, despite an appeal of that proposal filed by mutual-fund giant Franklin Templeton Investments.

In court papers, Stockton officials said the appeal from Franklin Templeton, which is arguing that the 300,000- resident city can afford to repay more money on the municipal bonds it issued, could take years to litigate.

During the appellate process, Franklin Templeton's lawyers asked that Stockton remain in bankruptcy, which city leaders argued would unfairly delay payments to retired municipal workers who have agreed to give up their health-care benefits and accept a one-time payment instead.

That includes a payment to a longtime city mechanic Wayne Klemin, who told Judge Christopher Klein in court papers that he is counting on the money to pay for treatments for his diabetes and hypertension.

Delaying the plan also would prevent some city workers from moving out of an aging municipal building that has a leaky roof and rat problem, Gordon MacKay, director of the Public Works Department, said in court papers.

"The drinking water is suspect due to lead pipe joints," Mr. MacKay wrote. "The building is not anywhere near modern expectations for an acceptable office environment."

Eric Jones, the city's police chief, said in a separate court document that the city's bankruptcy has made it difficult to recruit new officers.

"There is no way to quantify the uncertainty of a city retiree waiting for funds to pay for health care, the unease of a police force long stretched too thin, the loss of new business that might have moved to the city had it emerged from bankruptcy, or delay's harm to a municipal administration whose roof is literally crumbling over its head," the city's lawyers said in their request to put the bankruptcy exit plan into action.

On Oct. 30, Judge Klein confirmed a plan from the city that proposed to pay Franklin-managed funds about \$4 million for their roughly \$37 million claim. Franklin's lawyers said the city can afford to repay more, and they argued that Judge Klein made "several fundamental errors of law" with his decision.

The Franklin Templeton Investments-managed funds are the only creditors to continue to challenge the plan.

The city spent some of the municipal-bond money extended by the Franklin funds on fire stations and parks. The municipality made four interest payments before it missed a payment on March 1, 2012.

Stockton filed for bankruptcy protection in June 2012, with more than \$700 million worth of debit, making it the largest city to file for Chapter 9 protection until Detroit's case about a year later.

Stockton, which is about 80 miles inland from San Francisco, was hit hard by the housing crash.

Judge Klein blamed the city's financial woes on former leaders who offered overly generous pay to municipal workers and took on debt for new projects that Stockton couldn't afford.

Throughout the bankruptcy, the city cut costs. Voters also approved a new 3/4 -cent sales tax to pay for more police officers last year.

Stockton leaders didn't try to reduce costs by paying less money into a pension plan administered by the California Public Employees' Retirement System, even though Judge Klein decided that a California city's pensions could indeed be cut using bankruptcy's power.

By Dow Jones Business News

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