

# **Bond Case Briefs**

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## **Fitch: Stockton Bankruptcy Plan Could Influence Negotiations, Settlement Elsewhere.**

If approved, Stockton's Plan for the Adjustment of Debts (plan of adjustment) identifies negotiation strategies, legal ambiguities, and their potential consequences for future municipal bankruptcies in California and elsewhere, according to a new Fitch Ratings report.

'Stockton's ability to achieve significant concessions from labor under threat of bankruptcy provides food for thought about incentives in other potential cases' said Amy Laskey, Managing Director.

'The specter of bankruptcy may have motivated labor, although not bondholders, to negotiate.' In future cases, labor may feel the risks of losing all negotiating power in a Chapter 9 proceeding are too great. On the other hand, they may feel that their employer's need to continue to provide competitive wages and benefits will adequately protect their interests.

Most notable is the elimination of other post-employment benefits (OPEBs), which was negotiated with current employees and retirees. The reduction in Stockton's post-employment costs meaningfully improves their affordability.

Despite bondholder objections about ongoing CalPERS payments, the city appears to have acted practically since the proposed two-thirds reduction in retiree benefits would have made those jobs uncompetitive.

Lease revenue bonds are expected to be significantly impaired. Incentive to repay lease debt depends on the importance of the leased assets, although Stockton's actions highlight the difficulty in assessing essentiality. Fitch assumed the Stockton City Hall would be deemed essential but those bonds' treatment appears to reveal that City Hall is just another office building. However, another office building with a crime lab and garage are deemed essential by the city and those bonds will be repaid in full.

The plan of adjustment adheres to the Bankruptcy Code's treatment of 'special revenues,' as debt secured by such revenue streams, including utility revenues and tax increment, will continue to be paid to the extent the pledged revenues are sufficient.

In addition to employees, retirees, and bondholders, taxpayers are being asked to contribute to the city's recovery by approving a three-quarter cent sales tax increase this November.

For more information, a special report titled 'Stockton Bankruptcy Perspectives' is available on the Fitch Ratings' web site at [www.fitchratings.com](http://www.fitchratings.com).