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Stockton, Calif., Can Leave Bankruptcy During Appeal, Judge Rules.

Forcing Stockton, Calif., to remain in bankruptcy while an unhappy bondholder group protests the city's plan to cut millions of dollars would unfairly delay payments to the city's retirees, a federal judge said Tuesday.

From his Sacramento courtroom, U.S. Bankruptcy Judge Christopher Klein ruled that mutual-fund giant Franklin Templeton Investments shouldn't be allowed to hold up the city's departure from bankruptcy protection.

Franklin Templeton's lawyers wanted the city to remain in bankruptcy while they appeal Judge Klein's Oct. 30 decision approving a plan that pays Franklin-managed funds about \$4 million for their roughly \$37 million claim. The fund manager says the 300,000-resident city can afford more than that.

On Tuesday, Judge Klein ruled that the Franklin-managed funds aren't likely to win that battle and that a delay during the appeals process would unfairly tie up payments to retired city workers who have agreed to give up their health-care benefits and accept a one-time payment instead.

"Since we're dealing with retirees who presumably are in the later stages of their lives, longer term delays are very obviously and poignantly to their detriment," Judge Klein said. He added that cities and counties that borrow money in the roughly \$3.6 trillion municipal bond market "are served by some definitive resolution of cases."

Earlier Stockton's leaders said that delaying implementation of the plan also would make it hard for the city's police department to recruit new officers and prevent some city workers from moving out of an aging municipal building that has a leaky roof and rat problem.

The Franklin-managed funds are the only creditors to continue to challenge the city's bankruptcy-exit 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 debt, making it the largest city to seek bankruptcy protection under Chapter 9 until Detroit's filing about a year later.

Stockton, which is some 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.

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.

THE WALL STREET JOURNAL

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Jan. 20, 2015 3:29 p.m. ET

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