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## **WSJ: Stockton, Calif., to Exit Bankruptcy Protection on Wednesday.**

The city of Stockton, Calif., will leave bankruptcy protection on Wednesday, bringing to close years of cost-cutting efforts that affected bondholders, taxpayers and its retired employees.

Stockton leaders said the 300,000-resident city will leave so-called Chapter 9 protection—the type of bankruptcy procedure used by struggling municipalities—on sturdier financial ground.

City manager Kurt Wilson said the milestone will enable the city, which was hit hard by the housing crash, to move forward toward recovery. “We emerge from bankruptcy a renewed city, perhaps better prepared for our future than any other city in the state, with a new value system, a thorough understanding of our operations and finances and the tools to maintain solvency and adjust to economic conditions for decades into the future.”

The city, located about 80 miles inland from San Francisco, is getting out of bankruptcy after more than two years. During the case, voters approved a new 3/4-cent sales tax increase to pay for more police officers, while more than 1,000 workers and retirees who had \$538 million in claims against the city agreed to accept one-time payments worth \$5.1 million instead.

U.S. Bankruptcy Judge Christopher Klein approved the city’s reorganization plan in October.

Stockton filed for bankruptcy protection in June 2012, with more than \$700 million of debt, making it the largest city to seek bankruptcy protection under Chapter 9 until Detroit’s filing about a year later. Aside from the housing downturn, Judge Klein also blamed the city’s financial woes on former leaders who offered overly generous pay to city workers and took on debt for new projects that the city couldn’t afford.

One place where Stockton leaders didn’t try to cut costs was with its pension fund contributions. The city promised to continue making full payments into a pension plan administered by the California Public Employees’ Retirement System, the largest public pension in the U.S., even though Judge Klein decided that a California city’s pensions could indeed be cut using bankruptcy’s power.

A judge overseeing Detroit’s bankruptcy case has also ruled payments into pension funds could be reduced while a city is insolvent.

Stockton is emerging from bankruptcy proceedings despite the protests of one bondholder group. Mutual-fund giant Franklin Templeton Investments is appealing Judge Klein’s approval of the city’s reorganization plan, which proposed to pay Franklin-managed funds about \$4 million on a roughly \$37 million debt. Lawyers for the fund have argued that the city can afford to pay more than that amount.

Judge Klein said that the Franklin-managed funds aren’t likely to win the appeal. He agreed to let the city leave bankruptcy, despite the appeal, in part to give certainty about Stockton to the roughly \$3.6 trillion bond market that extends money to municipalities.

The Franklin-managed funds are the only creditors to continue to challenge the city's bankruptcy-exit plan.

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By KATY STECH

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Write to Katy Stech at [katherine.stech@wsj.com](mailto:katherine.stech@wsj.com)

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