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Franklin Templeton Files Opening Brief in Appeal of Stockton, CA, Bankruptcy Exit Plan.

(Reuters) - The holdout creditor in Stockton, California's bankruptcy case filed its opening brief in an appeal of the city's reorganization plan on Monday, claiming "no bondholder has ever received so little in the history of municipal bankruptcy."

The creditor, two funds managed by Franklin Templeton Investments, said Stockton's plan to exit Chapter 9 bankruptcy was discriminatory and punitive.

Franklin said it would receive less than 1 percent of its \$30.5 million unsecured claim in the case, now before the U.S. Bankruptcy Appellate Panel of the Ninth Circuit.

The brief claimed that by confirming a plan providing such a small distribution, compared with recoveries of 52 percent to 100 percent for other unsecured claims, U.S. Bankruptcy Judge Christopher Klein erred in backing Stockton's exit plan.

"The court's errors of law, and the erroneous findings of fact on which those conclusions were premised, require reversal and remand with a direction for the city to fashion equitable plan treatment for Franklin," the brief said.

Suffering a steep decline in revenue, Stockton filed for bankruptcy protection from its creditors in 2012. The Northern California city of about 300,000 residents got the green light from Klein to exit Chapter 9 last fall over objections by Franklin's legal team.

The Franklin team argued that Stockton would leave its two funds with little while leaving the city's pension fund, the California Public Employees' Retirement System, untouched.

Stockton's case had been closely watched in the \$3.6 trillion U.S. municipal debt market, with a focus on its pension dispute. The issue is of growing concern for state and local governments, especially whether pensions can be cut during bankruptcy.

Klein said Stockton had the authority to cut pensions but the city declined to do so. It instead eliminated health care for more than 1,000 of its retired employees to help cut spending.

The city also reworked labor agreements, won concessions from various creditors and won voter approval for a sales-tax increase to help bolster its finances, moves that helped it win Klein's support for its reorganization plan.

The plan took effect last month.

The case is *In re City of Stockton, California*, in U.S. Bankruptcy Appellate Panel of the Ninth Circuit, Case No. EC-14-1550

For Franklin: James Johnston, Jones Day

For Stockton: Marc Levinson, Orrick, Herrington & Sutcliffe

By REUTERS

MARCH 23, 2015, 6:07 P.M. E.D.T.

(Reporting by Robin Respaut and Jim Christie; Editing by Bernard Orr and Dan Grebler)

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