

Exhibit A

In re City of Stockton, California, Case No. 12-32118
April 23, 2013 Transcript of Hearing

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UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF CALIFORNIA
SACRAMENTO DIVISION

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BEFORE THE HONORABLE CHRISTOPHER M. KLEIN, JUDGE

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In re:) Case No. 12-32118-C-9
)
CITY OF STOCKTON, CALIFORNIA,) Chapter 9
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Debtor.)
_____)

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

held on

Tuesday, April 23, 2013

9:30 a.m.

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Reported by: VICKI L. BRITT, RPR, CSR No. 13170

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APPEARANCES (CONT'D)

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Attorney for Franklin California High Yield Municipal Fund
and Franklin High Yield Tax-Free Income Fund, Creditors:

JAMES O. JOHNSTON
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1 SACRAMENTO, CALIFORNIA

2 TUESDAY, APRIL 23, 2013 AT THE HOUR OF 9:30 A.M.

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4 THE COURT: Item No. 13 is the case of the City of
5 the Stockton, California, a continued motion to compromise
6 controversy and approve a settlement agreement with Ambac
7 Assurance Corporation.

8 Let's have entry of appearances, starting in the
9 courtroom.

10 MR. LEVINSON: Good morning, Your Honor. Mark
11 Levinson of Orrick on behalf of the City of Stockton.

12 THE COURT: Is anybody else in the courtroom on
13 the matter? There's nobody. I have a note that there are
14 telephone appearances by Ms. Craige.

15 MS. CRAIGE: Yes, good morning, Your Honor.
16 Christina Craige, Sidley Austin LLC, appearing on behalf of
17 Assured Guaranty Corp. and Assured Guaranty Municipal Corp.

18 THE COURT: Mr. Dubrow.

19 MR. DUBROW: Yes, Your Honor, good morning. David
20 Dubrow from Arent Fox, representing Ambac Assurance
21 Corporation.

22 THE COURT: And Mr. Kannel.

23 MR. KANNEL: Good morning, Your Honor. William
24 Kannel on behalf of Wells Fargo as Trustee with respect to
25 the certificates that are the subject matter of the

1 settlement.

2 THE COURT: And Mr. Larose.

3 MR. LAROSE: Good morning, Your Honor. Lawrence
4 Larose, Winston & Strawn, on behalf of National Public
5 Finance Guarantee Corporation.

6 THE COURT: And Mr. Morse.

7 MR. MORSE: Good morning, Your Honor. Joshua
8 Morse from Jones Day on behalf of Franklin High Yield
9 Tax-Free Income Fund and Franklin California High Yield
10 Municipal Fund.

11 THE COURT: Okay, tell me about the compromise
12 here, Mr. Levinson.

13 MR. LEVINSON: Ambac issued -- Ambac insured two
14 issuances of bonds that essentially built low income housing
15 in the redevelopment area. The bonds are secured by lease
16 payments from the City on essential City buildings, police
17 stations, fire stations, library, things that the City
18 needs.

19 The bonds are paid from the general fund. The
20 lease is paid from the general fund and also from a reserve
21 and also from tax increment, which is the -- set-aside the
22 tax increment -- the tax increment is the increase in value
23 that redevelopment did to a property. You start with a
24 property that's distressed, it's improved because of
25 redevelopment, that difference is the tax increment. And

1 the housing set-aside is the portion that's attributable to
2 the bonds that were used to build the housing. So the City
3 can use that to pay the lease payments and these bonds.

4 The settlement with Ambac does a number of things
5 for the City, in addition to saving us the time, the hassle,
6 the cost, the uncertainty and the like of fighting with
7 Ambac. What it does is it permits -- first off, it gives
8 the City a vacation from payment in that Ambac will look
9 first to the reserve funds that it's holding. It doesn't
10 have to do that, but it has agreed to do that. Secondly,
11 the guaranty of the general fund is reduced from 100 percent
12 to 80.5 percent. And there's attorneys' fees, but they're
13 built-in later down the road, a number of years down the
14 road.

15 The tax increment the City had hoped would be
16 enough to pay the bonds -- so the general fund wouldn't have
17 to reach into its pocket to pay the bonds -- that's not
18 going to be the case because there isn't enough tax
19 increment. But the calculation by the City is that the
20 general fund will be tapped, but at a much lower rate than
21 anticipated before, and the bottom line is this is a deal
22 that the City can live with over the long run.

23 These bonds aren't due until 2040 something. And
24 this is the way to get the City some relief in the
25 short-term, to take the general fund off the hook to the

1 tune of 20 percent. And while it is more than the City
2 offered under its "Ask," it's fairly close to the "Ask" in
3 real economic terms. We appreciate the work that Ambac did
4 with the City to try to reach an agreement, one the City can
5 live with.

6 Wells Fargo's participation is that as the
7 indenture trustee, it provide notice to the certificate
8 holders, none of whom have suffered a penny in loss because
9 Ambac has covered and will cover any losses to the
10 certificate holders.

11 But the trustee has notified them on EMMA, and you
12 saw as an exhibit to the Declaration of Lucinda
13 Hruska-Claeys -- I'll spell that name for you later -- that
14 notice was posted on EMMA, which is the way the bondholders
15 receive notice in its electronic age.

16 The Declaration of Robert Deis, the City Manager,
17 explains that he believes, and thus the City believes, that
18 this is in the best interest of the City because it resolves
19 the dispute that could be one that would be difficult and
20 expensive to litigate. Again, it gives the City a payment
21 schedule with which it can live, and it puts one settlement
22 in the settlement column. The settlement provides that this
23 agreement would be baked into a Plan of Adjustment. And
24 that Ambac would support such a Plan of Adjustment.

25 There was no opposition received, and certainly

1 I'll let counsel on the phone speak to that. But it was
2 more of a reservation of rights. And the Court can read
3 that, but I didn't read that as an opposition. It was just
4 a reservation of rights.

5 THE COURT: One moment. Please continue.

6 MR. LEVINSON: I was just saying that the pleading
7 filed by the so-called "Capital Markets Creditors" speaks
8 for itself, and, obviously, we've got counsel on the phone
9 who can speak up, but I didn't read that as an opposition.
10 I read it more as a reservation of rights.

11 The only other thing I'd add, Your Honor, is that
12 we have attached to the motion as an exhibit proposed
13 findings, conclusions and the proposed order. We set out
14 the findings and conclusions separately from the order
15 because there are a bunch of them and that was the better
16 way to do it.

17 We believe that the findings are each supported by
18 the Declarations of Ms. Hruska-Claeys and of Mr. Deis.
19 Those are important to the City and to Wells Fargo because
20 we're hoping to establish a protocol of how to deal with
21 certificate holders when the City reaches settlements. And
22 the City, and I believe the Capital Markets Creditors, hope
23 that that will be the case and we'll be down the road with
24 them someday. But, again, we believe each of the findings
25 is supported by the two declarations and by the settlement

1 agreement, which is attached to Mr. Deis' declaration.

2 THE COURT: Anything else, Mr. Levinson?

3 MR. LEVINSON: No, Your Honor.

4 THE COURT: All right, support for the motion?

5 Silence. Opposition to the motion? Silence.

6 All right, I take it that there is no opposition.

7 I do see there's a reservation of rights, which is perfectly
8 ordinary. And I'm satisfied with the proposed compromise.

9 I guess you're asking me to approve it?

10 MR. LEVINSON: I am, Your Honor.

11 THE COURT: That's, of course, without prejudice
12 to me taking another look at it in the Plan of Adjustment.

13 MR. LEVINSON: You've made that clear, Your Honor.

14 THE COURT: And that will continue to be clear.

15 But I realize that it is a building block in a Plan. And
16 with that reservation, I'm going to look at it again in the
17 context of an actual Plan of Adjustment, where I see the
18 entire landscape and who's doing what. I will grant the
19 motion.

20 MR. LEVINSON: Thank you, Your Honor.

21 MR. KANNEL: William Kannel for the Trustee. And
22 you will enter the finding of facts and conclusions of law?

23 THE COURT: Mr. Kannel, you're coming through very
24 faintly.

25 MR. KANNEL: Sure. You will enter the findings of

1 facts and conclusions of law as well?

2 THE COURT: Well, I haven't studied them, but
3 probably, yes, but with a similar reservation that I would
4 revisit them if I find it appropriate.

5 MR. KANNEL: Understood.

6 MR. LEVINSON: And, Your Honor, we filed them as
7 an attachment to the motion. We can upload them separately
8 this afternoon.

9 THE COURT: All right, you may do so.

10 MR. LEVINSON: Thank you, Your Honor.

11 (The hearing concluded at 9:45 a.m.)

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