December 7, 2016

FOR IMMEDIATE RELEASE – STATEMENT

Bankruptcy Update
The history and future of San Bernardino

The Bankruptcy Court hearing held on December 6, 2016 was a watershed moment for the City of San Bernardino. U.S. Bankruptcy Court Judge Meredith Jury confirmed the City's proposed plan of adjustment (bankruptcy exit plan). Among the reasons for her decision was that she believed the City had negotiated in good-faith, proposed a bankruptcy exit plan it could afford, allocated the resources to fund police and other services key to revitalizing the City, and it is in the collective best interest to creditors and citizens that the plan be confirmed.

The City filed a petition commencing its Chapter 9 bankruptcy case in August 2012. At the time, City officials had recently discovered it was deeply insolvent and was facing a sharp liquidity crisis. According to the Mayor at the time, the Honorable Patrick J. Morris, the City did not have enough cash to pay employees and meet its obligations in the next 60 days, and the health, safety and well-being of residents would have been jeopardized absent the City's filing for bankruptcy protection. Due to this situation, the City had no time to prepare for the bankruptcy filing or to initiate the mediation process typically required of municipalities in California, whereby a neutral evaluator works to reach mediated agreements with employee groups and creditors. Instead, the City had to file its bankruptcy petition on an emergency basis.

Given the emergency nature of its filing, it took the City several months to assess its financial condition – until April 2013, at which time the City adopted a final budget for fiscal years 2012-13 and 2013-14. The City's initial financial assessment, however, only reflected further concern over its financial future. In September 2013, Mayor Morris announced that absent fundamental modernization and change the City faced a ten-year deficit of a staggering $360 million. The future of San Bernardino looked bleak.

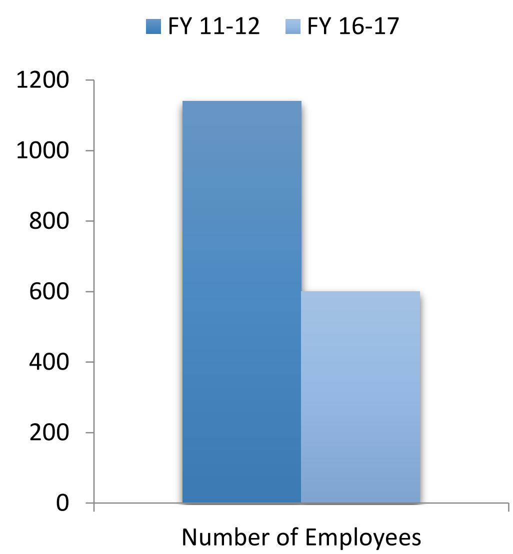
In the 53 months since the City's bankruptcy case was filed, the City has made remarkable progress. It has completed a major effort to modernize and make City operations more efficient and effective. It has also completed a great deal of financial, organizational and operational reform in the months spent in bankruptcy – including completing a time-intensive annexation process. The City has achieved these accomplishments against the backdrop of numerous objections and lawsuits filed by certain creditors, which resulted in significant time and attorney fees and costs to defend the City – in order to ensure that it could make the changes necessary to emerge from bankruptcy as a viable provider of municipal services. Now, the City is on the cusp of emerging from bankruptcy as a changed city with a brighter future.

Here are some of the major milestones leading up to the development and implementation of the City's Recovery Plan and Plan of Adjustment:

August 2012	Employer-contribution payments to CalPERS suspended to preserve liquidity, but the City continued to make employee-contribution payments to CalPERS.
November 2012	Pendency Plan approved, which proposed cuts of an estimated $26M in expenditures, deferral of about $35M in General Fund obligations and several revenue raising measures.
August 2013	City is found eligible for bankruptcy protection over objections from CalPERS.
October 2013	City begins to engage in mediation and negotiations with all its major creditor groups to work toward a consensual Plan of Adjustment and settlements.
November 2013	City undergoes recall election and special election.

and February 2014	• As a result of this election Mayor Carey Davis and City Attorney Gary Saenz, joined the City and their leadership has allowed the City to implement the Recovery Plan discussed below.
June 2014	City reaches agreement with CalPERS which permits the City to make payments to CalPERS over time totaling $13.52M in arrearages that the City owed to CalPERS between the petition date and June 30, 2013, resumption of monthly employer-contribution payments and payment of a penalty.
October 2014	Bankruptcy Court sets deadline of May 30, 2015 by which the City will file a Plan of Adjustment.
March 2015	City completes community based strategic plan to guide the formation of a "Recovery Plan" for the City.
April 2015	City Council adopts Recovery Plan and associated fiscal model and authorizes filing of Plan of Adjustment. The City also adopted a set of operating practices for good governance, recognizing that the existing City Charter was a core contributor to many of the City's governance issues, and committed to funding a Charter Review Committee. • As a result of this commitment the City was able to recruit a very able and experienced City Manager, Mark Scott, who joined the City in early 2016 to lead transition efforts
May 2015	City files its initial Plan of Adjustment and Recovery Plan with the Bankruptcy Court.

Since the filing of the City's first Plan of Adjustment and the Recovery Plan, the City has worked to implement the Recovery Plan and to continue to reach settlements with all of its creditors in connection with its bankruptcy case. This work required the City to approve numerous operational changes, resulting in several amendments to the Plan of Adjustment and associated fiscal model. The City remains committed to the Recovery Plan and has implemented approximately 70 percent of its contents to date. As a result of many organizational changes, the number of full-time City employees has decreased from approximately 1,140 to approximately 600. The City has managed transitions so that virtually no employees in the fire or waste management departments lost employment as a result of the service delivery changes. In addition, in August 2015, the City entered into a settlement with its police safety union, and then in early 2016, entered into settlements with its fire safety union and its pension obligation bondholders. Each of these settlements ended lengthy and costly litigation.



The City Council also approved a revised City Charter and placed it on the ballot for voter consideration in November 2016, when it was approved by voters. By late 2016 the City was also current on all audit requirements and had a solid grasp on its fiscal standing.

As a result of the restructuring work, the City anticipates in its latest financial projections that it will have a positive General Fund unallocated cash balance of approximately $9.5 million in FY 22-23, as opposed to the projected deficit of $360 million projected for that same period in 2013.

While the improved General Fund balance is a positive step on the way to improving the City's overall financial footing, current revenue sources overall still fall short of the funding that the City will need in the coming years in order to rectify years of underfunding for police resources, infrastructure repairs and other critical needs.

The Recovery Plan Implementation Process:

The Recovery Plan was built on the following principles.

- Create a sustainable local government able to deliver basic municipal services
- Demonstrate financial stability over at least a ten-year period
- Place priority on continued delivery of basic municipal services, including deferred maintenance
- Allow for effective and efficient service delivery, following industry best practices
- Implementation of cost containment and cost recovery
- Provide the ability for the City to be a viable employer
- Allow for voter approval of a revised Charter/new governance structure

These principles led to the development of a concrete Recovery Plan with specific goal areas. The Recovery Plan drew on both the Pendency Plan and Mayor Morris' Ten Year Plan, noted above, but also added specifics and milestones for implementation. The goal areas detailed in the Recovery Plan were:

Revenue enhancement	Becoming a viable employer	Contracting for service delivery
Restructuring of long-term obligations	Annexation to County Fire District	Franchising solid waste services
Charter reform	Organizational improvements	

Progress has been made under each goal. Below is a partial listing of the changes made during the pendency of the City's bankruptcy to alter its downward trajectory.

I. Becoming a viable employer:

- The City has reached agreements with all labor unions which include provisions for pension reform as well as compensation and benefit changes. Some notable cost savings initiatives include:
  - o Restructuring collective bargaining agreements so that the City no longer provides subsidized health insurance coverage (for almost all retirees and employees). This reflects a savings on a present value basis of approximately $44 million for retirees and $51 million for current employees relative to the provisions in place prior to January 2015.
  - o In addition, changes in employee pension contributions and other benefits will save the City approximately $56 million on a present value basis relative to the benefits in place prior to bankruptcy petition.

II. Contracting for service delivery:

- Modern cities deliver many services via contracts with third party providers, using competition to get the best terms and price for services. The City has entered into a number of such contracts under the Recovery Plan.
  - Contracting for operation of the soccer complex, which is saving $280,000 to $425,000 per year.
  - Contracting for right-of-way maintenance and street sweeping, which is saving approximately $1 million per year ($500,000 of which is attributable to contracting out of street sweeping).

III. Restructuring of long-term obligations:

- Through negotiations the City has been able to obtain savings from the restructuring of long term obligations.
  - Via an agreement with unsecured pension obligation bond holders, the City will lower by approximately $45.1 million over time its payments to the bondholders. Annual debt service payments will be reduced from $3.3 million - $4.7 million per year to $1 million - $2.5 million per year through 2046.
  - Restructuring of certain secured credit financing to provide additional liquidity to the City in the amount of $1.1 million.
  - Discharge of the City's other general unsecured claims, approximately $210 million (including employee and retiree benefit changes discussed under item (I) above).

IV. Annexation to the San Bernardino County Fire District:

- The City has successfully transitioned responsibility for fire and emergency medical services to the San Bernardino County Fire District. This has resulted in additional revenues to offset fire delivery costs through a parcel fee, and has improved services relative to what the City could afford to provide independently. All City employees that chose to apply for positions with County Fire are currently employed with the District, and the City has agreed to transfer property taxes to the District for the service delivery.
  - Financial benefits to the City include an estimated pension cost savings of $65.6 million over the next 20 fiscal years, and an improved financial position in excess of about $5-6 million annually (even including certain one-time transition costs associated with the annexation and considerably more if deferred maintenance costs are taken into consideration).
  - Operational improvements from annexation include better dispatch services and direct response from 12 stations (County currently operates 10 stations in the City and responds directly into the City from 2 stations just outside of City limits). In comparison, Mayor Morris' Ten Year Plan of 2013 contemplated closure of 4 stations in the City – reducing operating fire stations from 13 to 9. Annexation was clearly the best approach.

V. Franchising of City Solid Waste Collection Services:

- The City was able to complete a competitive process for contracting out of solid waste collection services. The private company which won the bid offered employment to all City employees and even made a bonus payment for transitioning employees.
  - As a result of the franchise, the City received $5 million in a one-time franchise payment, and increased estimated annual revenues of approximately $5 million to $7.6 million per year (over the 20-year term of the City's fiscal model). In addition, the City received a one-time payment of $12.2 million for equipment.
  - Services are now improved with better equipment and customer service capability.

VI. Charter change and organizational improvements:

- San Bernardino has long been hampered by a Charter which was needlessly complex and ambiguous. This resulted in confused lines of authority and a lack of accountability. San Bernardino was also one of only 11 cities in the State (out of nearly 500) with an elected City Attorney.
    - In November 2016, the voters overwhelmingly approved a new, modern Charter which provides for a council-manager form of governance - enhancing accountability and clear lines of authority, while dispensing with several low and no value activities the City was forced to perform under the prior Charter.
    - The City Attorney and City Clerk are now appointed and accountable to the Mayor and City Council, as is the case in the vast majority of California cities.

The above progress has allowed the City to begin to address its critical crime suppression and prevention needs by allocating funds towards a five-year Police Plan aimed at rebuilding policing levels and programs. As recognized by Judge Jury, it is important for the City to reduce its crime rate. This reduction will create an enjoyable environment where residents can live, work and play, and businesses can once again invest in the community.

All told, the City's bankruptcy case has been a painful but necessary step for San Bernardino. The City is now poised both from an operational and governance standpoint to be more efficient and effective. It will take years to fully recover from its prior financial ills, but the City has been brought into the mainstream with other California cities in its governance practices and can operate in a fashion similar to other cities in the region and the State. As such the City is poised for a renaissance.

While the City's exit from bankruptcy is near, it has not come without costs to the City in the form of the time and effort expended by the City's professionals and employees. It is estimated that the costs incurred in connection with the City's bankruptcy will reach at least $25 million, primarily due to the costs of legal, financial and similar professionals employed in connection with the City's bankruptcy case, often in response to litigation brought by certain of the City's creditors and other litigants.

However, these costs must be weighed against at least $350 million in one-time and ongoing expenditure savings and obligation restructuring, plus increased additional revenues of approximately $10 million per year for the next 20-years of the City's financial model, created under the Recovery Plan.

In addition, the City's bankruptcy has allowed the City a reprieve during which it was able to shore up its finances, find greater cost and organizational efficiencies and improve its governance functions. Thus, all told, while the City's exit from bankruptcy will have been a hard-fought victory – it was one that was critical and necessary to the City's continued viability for the future.