

Update on Bankruptcy

City of San Bernardino City Council Open Session

December 7, 2015



Background: Purpose of a Plan of Adjustment & Disclosure Statement

Plan of Adjustment and Disclosure Statement



What must be done to ensure:

Cash
Solvency

Budget
Solvency

Service
Solvency

The Plan of Adjustment:

- Reduces the City's debts to the extent allowed by the Bankruptcy Code and proposes to make payments that are financially feasible

The Disclosure Statement:

- Explains the POA and the City's overall fiscal plan to exit bankruptcy
- Explains the treatment plan for various classes of creditors' claims
- The Recovery Plan attached to the Disclosure Statement also describes the City's initiatives to increase revenue and become more efficient, and explains how to restructure the organization to be successful

Background: Principles for Restructuring

The City's Restructuring Initiatives must...

- 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
- Provide the ability for the City to be a viable employer
- Allow for voter approval of a revised Charter/new governance structure



Status

- In May 2015 the City filed first Plan of Adjustment and Recovery Plan
- Since May the City has continued bankruptcy litigation, worked to settle claims where possible and to implement the Recovery Plan
- In response to objections from creditors Bankruptcy Court required City to update Plan of Adjustment and Recovery Plan



Status

- First Amended Disclosure Statement and Updated Recovery Plan filed on November 25
- Objections due 12/16 with hearing on 12/23
- Updated Plan shows progress made since May and update on work currently underway
- Plan represents best balance to recovery of claims, while providing for adequate services and operations



Major Restructuring Initiatives

- 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



Updated Long Range Financial Plan

- Areas Updated In the Model
 - Baseline Revenues
 - Sales and Property Taxes
 - Fees for Services
 - Triple Flip Wind Down
 - Updated MSA
 - Baseline Expenditures
 - Recently Approved Labor Agreements
 - Costs for Services Tied to FY 15-16 Budget Forecast and Updates
 - Deferred Obligations
 - Unsecured Debt Obligations
 - Prepetition Litigation Claims
 - Fiscal and Service Stabilization Actions
 - Policing Plan
 - Infrastructure Funding
 - Information Technology and Fleet Replacement Funding
 - Internal Services Funding



Updated Long Range Financial Plan

- Areas Updated In the Model
 - Restructuring Actions
 - Savings Anticipated From Contracting of Solid Waste Services
 - Savings Anticipated From Annexation into the County Fire District
 - Savings Anticipated From Debt Restructuring
 - Revenues Anticipated From the Implementation of the Successor Agency's Long Range Property Management Plan
 - Establishes a 15% Operating Capital Reserve
 - Bankruptcy Fund
 - Established To Managed Bankruptcy Cash Inflows and Outflows
 - Includes Funding For Anticipated Claims Related to Bankruptcy



Forecast Funds 70% of Major Service Improvement Initiatives

- Tension between desire for service solvency vs. financial sustainability
 - Funding at 100% would push General Fund into deficit
- Police Services Master Plan
 - Funds 50 of proposed 72 sworn FTE
 - \$159M funded vs. \$227M (full plan-20 years), plus \$33M in fleet costs
- Street Improvements
 - \$51M funded vs. \$73M identified needs (20-yr total)
 - These costs are above what other transportation resources can pay for
- Building Major Maintenance/Repairs
 - \$36M funded vs. \$52M identified needs (20-yr total)
 - Also funds debt service on \$20M seismic retrofit for City Hall
- Park Improvements
 - \$8M funded vs. \$12M identified needs (20-yr total)



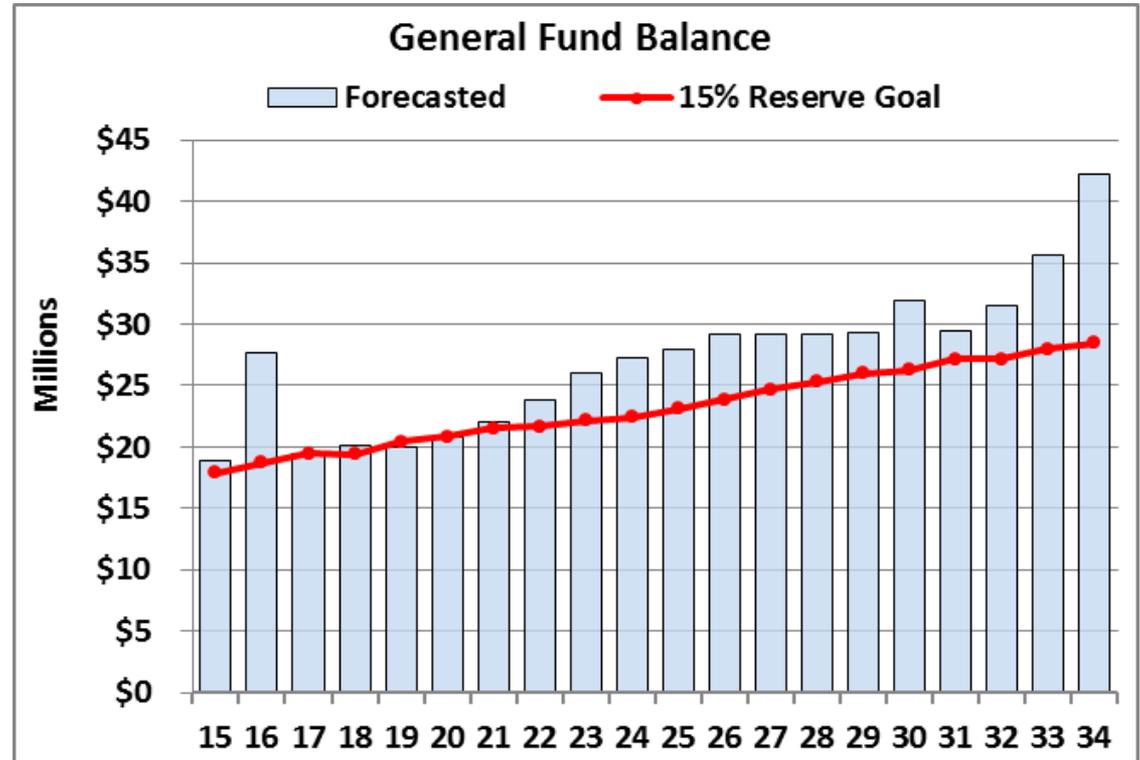
Other Additions to Baseline Funding

- Finance/IT/other organizational improvements
 - Funds \$1M/yr for added staff, \$26M over 20 years
 - Facing difficulties in trying to provide even basic levels of support services
- Technology infrastructure/system upgrades
 - \$11.5M over 20 years
 - Systems beyond useful life, no backup
- General government fleet needs
 - \$25M over 20 years
 - Currently no replacement funding for vehicles
- Restoration of internal service reserves
 - \$7.5M over 20 years
 - Workers comp/liability reserves low, will be augmented over time



Reserve Goal Met Throughout Forecast

- Balance maintained at or above 15%
- New CalPERS plans for lower discount rate will raise future pension costs
 - Impact unknown at this time
 - Keeping reserve level high is essential



Next Steps

Bankruptcy Court Timeline Following Filing

- Bankruptcy Court hearing to approve Disclosure Statement
- Approved Disclosure Statement then circulated to creditors
- Bankruptcy Court hearing on confirmation of Plan
- Timelines may be impacted by litigation, negotiations with creditors and Plan modifications

