



January 13, 2014

Diocese of Stockton Q&A

Dear People of the Diocese of Stockton,

Filing for bankruptcy is a painful but necessary decision for the Diocese of Stockton. I hope here to offer answers to some of the questions you may have about this process, and I will add to this discussion as we move forward together and new questions arise. During this challenging time, we place our trust and confidence in God and ask for guidance in light of our faith.

Why is the Diocese filing for Chapter 11 bankruptcy?

A: After a great deal of careful consideration, consultation and prayer, we believe that filing for Chapter 11 bankruptcy protection is the only way the Diocese of Stockton can continue the ministries and support it offers to Catholic parishes and communities, and fulfill the responsibilities it has to victims of sexual abuse, particularly those who have not yet had their day in court.

Chapter 11 is a process designed to bring all parties together in one place to resolve difficult claims fairly and finally, with the supervision of the bankruptcy court. A bankruptcy allows the Diocese to deal with all these issues collectively rather than one at a time.

How can the Diocese be bankrupt?

A: The Diocese has a balanced budget and has sufficient funds to continue its normal operations. It does not, however, have reserve funds available to settle pending lawsuits of sexual abuse, or to handle any new claims that may be made. In the past 20 years, we have paid more than \$14 million in legal settlements and judgments in an effort to fulfill the responsibility we have to the victims of clerical sexual abuse. Total

payments, including those from insurers and other payors, have amounted to \$32 million.

How did the Diocese get in this situation?

A: Very simply, we are in this situation because of those priests in our diocese who perpetrated grave, evil acts of child sexual abuse. We can never forget that these evil acts, not the victims of the abuse, are responsible for the financial difficulties we now face.

Isn't there some other way out of this problem?

A: We have tried to identify other solutions. For most of the past year, we have met with advisors, pastors, parishioners and community members in hopes of finding a different path forward. It now appears that Chapter 11 protection is the only way we can fulfill our responsibilities to the victims of sexual abuse and our responsibilities to the parishes and communities we serve. The bankruptcy process is the only avenue to get all parties in one place to resolve any remaining sex abuse claims in the fairest possible way.

What does filing for bankruptcy mean for sexual abuse victims?

A: In a Chapter 11 filing, the bankruptcy court supervises the process where whatever funds are available to claimants and creditors will be distributed as fairly as possible. Victims of sexual abuse will be represented in this process intended to result in fair compensation of all of these individuals. If we did not file, any remaining funds available to victims would likely be consumed in the next case, leaving nothing for those claims that have not yet been resolved.

How will the work of the Diocese continue after this filing?

A: In the bankruptcy filing, the Diocese will continue its regular business while giving creditors time to come forward with their claims and negotiate a fair plan of compensation. Chapter 11 bankruptcy is a reorganization, with the goal of negotiating a plan to compensate to the extent possible those who are owed money while the Diocese continues functioning.

The bankruptcy filing will allow representatives of the Diocese, the claimants, and the creditors to attempt to reach agreement on how much of the Diocese's existing obligations can be paid, and establish a reorganization plan. If no agreement can be

reached, the bankruptcy court will decide. The Diocese will continue its normal business operations, but expenses and decisions outside the normal scope of business must be approved by the court. We believe this will allow us to continue the programs and ministries we provide to parishes and the poor while we work with our creditors to satisfy our obligations.

What does this mean for my parish or school?

A: The parishes (which include the parish schools) within the Diocese of Stockton are organized as separate corporations, are not filing bankruptcy and should not be impacted by this filing. The only entity that is seeking bankruptcy protection is the Roman Catholic Bishop of Stockton, legally defined as a corporation sole.

The same is true for the Catholic high schools. These separate corporations and others – like the corporations that run Catholic cemeteries and the Madonna of Peace Retreat Center– are not involved in the bankruptcy filing.

In filings by other dioceses, creditors have challenged the status of these separate corporations. That is why we have advised our pastors to prepare for such challenges and to seek independent legal assistance.

Why can't the Vatican provide a bailout for the Diocese?

A: That is not an option. In fact, dioceses all over the world support the Vatican, which is an independent entity. There are no Vatican funds available to us in this situation.

Can the Diocese sell real estate or liquidate other holdings in order to pay claims?

A: All of the holdings and belongings of the Roman Catholic Bishop of Stockton will be disclosed in filings with the court, and if the parties cannot reach agreement on a reorganization plan, the court will decide what can and cannot be used to continue operations and meet obligations. The Diocese itself holds relatively little property and assets, which include five properties: the Pastoral Center; the home of the bishop; the convent of the Eucharistic Franciscan Missionary Sisters; the Newman House/St. John Vianney center located near the University of the Pacific campus; and a parcel of land in Valley Springs donated for use as a future parish site.

Other properties within our Diocese do not belong to the entity filing for bankruptcy protection. These include parish churches and schools, St. Mary's and Central Catholic High Schools, the Madonna of Peace Retreat Center, Catholic Cemeteries, as well as

properties held for future parish sites by the Roman Catholic Welfare Corporation, all of which are separate corporations.

Is there insurance available to cover the costs of remaining cases?

A: For some cases, there is no insurance coverage for the time period in question. In other cases, the insurance companies that once were involved have ceased to exist. Even in cases where there was a policy in place, coverage only occurs after substantial payments from the Diocese itself.

The bankruptcy process provides a venue for all creditors, the insurance companies, and the Diocese to participate in forming a global resolution. We expect this resolution will include some level of contributions from the insurance companies.

Is this filing a way to hide assets from victims?

A: It is not. The Chapter 11 process is extremely transparent and public. Our creditors and the public will be able to see all that we have and all the Diocese has to work with in providing compensation for creditors and claimants.

Since I came to Stockton in 1999, I have settled cases whenever possible and sought to provide the victims with whatever assistance would help them. I never want to lose sight of the fact that the acts of sexual abuse committed by priests betrayed the trust people have placed in us and have inflicted severe damage on innocent lives. I carry these convictions with me into this important decision concerning our finances and future as a Diocese.

Why doesn't the Diocese use funds from the Church for Tomorrow or the Bishop's Ministry Appeal to close this fiscal gap?

A: The Church for Tomorrow is a separate corporation governed by an independent board of directors and is not controlled by the Roman Catholic Bishop of Stockton. The funds in the Church for Tomorrow have been contributed by the people of the Diocese for very specific good works and can be distributed by the Church for Tomorrow Board only in accord with the purposes expressed in the contributions to this Fund.

Similarly, the Bishop's Ministry Appeal receives contributions designated by the donors for the specific purpose of supporting the Church Ministries of the Diocese. These monies cannot be converted to use for other purposes.

How long will this process take?

A: Because each bankruptcy case is different, it is not possible to predict accurately when the process will be completed. However, based on the experiences of other dioceses, we anticipate this matter will remain before the court for one-and-a-half to two years.

What is the desired outcome of the bankruptcy process?

A. It is my sincere hope that the reorganization of the Diocese through the bankruptcy process will allow the Diocese to move ahead by contributing to the healing of victims and by helping us to carry out the mission of the Church in preaching the Gospel, celebrating the Sacraments, and reaching out in love to the poor and vulnerable.

If you have additional questions, you can submit them to the Diocese either by email (editor@stocktondiocese.org) or by going to the Diocesan website (<http://stocktondiocese.org/bishop/financial-news>.)

Thank you for your continued prayers.

Bishop Stephen E. Blaire