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UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO DIVISION

In re: CITY OF STOCKTON, CALIFORNIA, Debtor.	Case No. 2012-32118 D.C. No. OHS-1 Chapter 9 **EXHIBIT Q TO THE DECLARATION OF LAURIE MONTES IN SUPPORT OF CITY OF STOCKTON'S STATEMENT OF QUALIFICATIONS UNDER SECTION 109(C) OF THE UNITED STATES BANKRUPTCY CODE** Date: TBD Time: TBD Dept: TBD Judge: TBD

Exhibit Q

February 28, 2012

TO: Mayor and City Council

FROM: Bob Deis, City Manager

SUBJECT: **FISCAL CONDITION UPDATE FOR FISCAL YEARS 2010-11, 2011-12 AND 2012-13**

RECOMMENDATION

It is recommended that the City Council adopt a resolution that:

1) authorizes prior period adjustments, amends the Fiscal Year 2011-12 budget, and approves various inter-fund transfers to help ensure a balanced budget for the rest of the fiscal year;
2) accepts the Management Partners Financial Assessment Report;
3) authorizes a confidential neutral evaluation process pursuant to Government Code Sections 53760-53760.7 (AB506) and directs staff to develop plans for long term fiscal sustainability to be discussed with interested parties before a neutral evaluator;
4) adopts findings and authorizes a contractual agreement with Management Partners, Inc. for project management and technical assistance for the AB506 mediation process for the City of Stockton in the amount of $175,000.
5) suspends certain debt payments from unrestricted resources for the remainder of fiscal year 2011-12;
6) adopts findings and ratifies the suspension of leave payoffs at employee separation;
7) authorizes the City Manager and the City Attorney to conduct an investigation into persons or entities that may have contributed to the causes of the City's current financial situation; and
8) authorizes continuation of the fiscal emergency as adopted by Council Resolution #11-0114 on May 17, 2011.

Summary

This report provides an update on the City's fiscal condition and discusses changes since the August 23rd and October 18, 2011 Fiscal Year 2010-11 and 2011-12 updates.

Recommended fund transfers and other actions of $15 million are also proposed to address the $15 million in unrestricted fund deficits now projected through June 2012. Approval of the recommended resolution will authorize a variety of 2009-10 and 2010-11 clean up actions and provides approval for a 2011-12 budget amendment which includes the inter-fund transfers necessary to balance the projected deficit. Approval of these actions will allow staff to complete the June 30, 2011 year-end close process,

resume the external audit and continue to operate on a balanced budget basis through this fiscal year, absent any new developments.

As we began to look at our budget for the upcoming fiscal year and prepare for the new state imposed "fact finding" process, a four-year projection has been prepared and 2012-13 balancing alternatives have been developed to help understand the magnitude of the projected deficit. The forecast shows deficits ranging from $20 (best case) to $38 million (worse case) in Fiscal Year 2012-13 and increasing in subsequent years. The "best case" assumes we continue to declare an emergency and continue to impose labor concessions. The $38 million assumes we lose in court with unions concerning the effects of prior fiscal emergency declarations and we must "turnoff" past concessions.

The independent financial condition assessment report has been received and confirms the City's dire fiscal situation. Commencement of a State AB506 confidential neutral evaluation process is recommended by staff and consultants. To avoid insolvency this fiscal year and into the future, staff recommends that debt payments from unrestricted funds be suspended. The City Manager has imposed temporary restrictions on leave pay offs effective February 16, 2012 to ensure we don't tip into insolvency this year. Your Council is being asked to ratify this policy.

It is apparent that past financial practices of former City staff and possibly contractors, that were not disclosed to the Council, have contributed to the City's current financial situation. Given the grave consequences now being faced by the City, the City Manager and City Attorney wish to investigate these practices for possible recourse.

This report and its discussion of revised budget projections support the continuation of the state of fiscal emergency as adopted by Council Resolution #11-0114 on May 17, 2011.

DISCUSSION

Background

It is no secret that the "Great Recession" has had an enormous impact on the City's finances. As I mentioned in my Fiscal Year 2011-12 Budget Message, the City of Stockton has been and continues to be near insolvency. Reserves in the General Fund were exhausted long ago, reserves in internal service funds were also depleted long ago and the City has leveraged itself with debt that puts the General Fund at risk for backfilling deficits in other funds. The City Council has declared two emergencies based on fiscal circumstances and negotiated or imposed concessions of $25 million and service reductions of $12 million this fiscal year alone.

Once you started getting complete information from your staff in early 2010, your Council immediately began making courageous decisions and focused on the area that you could influence, labor costs. You formulated a comprehensive Ten Point Action Plan for Fiscal Sustainability that was copied by other cities in the state. This Plan provided the direction for the last year's negotiations. Unfortunately, due to our dire financial situation, what would typically take three to five years to accomplish, we had to implement in six months. Needless to say, this plan was the source of conflict.

Your Council also adopted four aggressive goals, one being "Fiscal Sustainability – Getting our Fiscal House in Order." You also adopted various Strategic Initiatives around those four goals, including one that asked staff to analyze all of our funds and financial management practices and one to improve budget monitoring. The results of these initiatives have uncovered alarming facts. We uncovered substandard bookkeeping, fiscal mismanagement and a general lack of oversight over City-wide finances.

We now have to correct various bookkeeping errors, adjust for various over drafts and generally clean up the books for review by the independent auditors. We also need to backfill for a large amount of debt that was issued during the last decade of this century. Finally, we need to adjust for the "hangover" of past state raids on our finances.

Two budget updates presented to City Council on October 18, 2011 and August 23, 2011 reported several significant events impacting the 2010-11 and 2011-12 General Fund budgets. The City's financial condition has deteriorated. Budget estimates for fiscal year 2012-13 have been developed that identify a best case deficit of $20 million.

Our comprehensive review of our funds and fiscal practices is nearly complete. The following discussion describes the changes since the previous budget updates, and the adjustments and transfers proposed to balance the City's General Fund, to preserve and maintain solvency for this fiscal year and to begin to restructure the City's financial obligations to provide lasting fiscal sustainability. It is time to deal with our precarious financial situation, once and for all, and restructure our finances to allow the City to focus on and address the other challenges and opportunities of our community.

In the private sector there are numerous examples of financial restructuring that resulted in sustainable and healthy enterprises going forward, such as in the auto industry, airlines and the hi-tech industry. We plan to do the same. Our employees and the citizens of Stockton who receive city services have borne the entire brunt of our restructuring efforts so far and now its time for others to do the same.

The alternatives to this proposed approach include more radical service reductions in public safety; which we think would be dangerous to our citizenry. Another option would be to ask for tax increases. Even if the voters would approve such a proposal, we just don't think they should be asked to fix this problem, at least until we explore other alternatives, address our liquidation exposure and get our house in order. Even more importantly, the problems we face are so severe that neither of these options, even implemented aggressively, would be enough to correct the situation and make Stockton financially sustainable. In addition, focusing only on current revenues and expenditures avoids a large source of the problems, the debt and other contractual liabilities that so far have note been significantly addressed.

One may ask, "how did we get here?" It is clear, after spending the last year going through our finances and commitments, that an accumulation of poor decisions and practices contributed greatly, and that the "knock out punch," the long and protracted recession that still exists in the Valley, is the final "blow" that got us to this point.

The 1990's included a greatly expanding retiree health insurance commitment that, although appears legal, it was unsound and eerily similar to a "Ponzi scheme." We are now at the back end of this "scheme" and are having to pay for it. Next year, we expect to pay more for retiree health insurance than for our current employees. This coupled with enhanced retirement benefits, accelerated the problem. We now have roughly 1.7 retirees for every employee.

The City issued huge amounts of debt in the last decade with the assumption that the hyper growth that was occurring would last forever. The bond market was not willing to take the risk of continued growth, so the City was required to obligate the General Fund to act as backup security to get decent interest rates. The General Fund is now backfilling for some of this debt.

It is well documented and publicized the City also approved generous labor contracts that were not transparent nor sustainable. Since certain labor groups, such as the Stockton Police Officers' Association (SPOA), were not willing to re-open contracts, your Council had to declare two fiscal emergencies and impose concessions. These are being challenged by SPOA and Stockton City Employees' Association (SCEA) via the courts and the Public Employment Relations Board (PERB). The ultimate decisions in these venues have not been determined. In other words, there is more financial risk out there.

The Valley recession and its impacts have been well documented. The foreclosure crisis and property value reduction continues and has hit the General Fund and Redevelopment (RDA) hard. The RDA alone experienced a 60 percent reduction in tax increment.

Finally, the State's actions of raiding our funds have accumulated and impacted our General Fund.

Not one of these factors is the cause of our current problem. However, the interplay of all these factors has created a situation where we can't "grow our way" out of the problem and no amount of forward looking financial planning will properly fix it.

Present Situation

June 2010 Prior Period Adjustments

The list of bookkeeping changes to the City's fiscal condition starts in the years prior to June 2010. We have discovered serious issues with the accuracy of the June 2010 audited balances and have reviewed beginning and end of year balances of that year as part of the process of closing the books for June 30, 2011. In their internal control report to City Council, the City's 2009-10 external auditors publicly identified reconciliation issues for the City's cash, library, and property owner loan receivable programs. I don't think it was clear just how problematic these areas were to the underlying financial condition of the City. Through the Council's strategic initiative designed to "get our fiscal house in order," staff has identified a number of unsupportable balances in the June 2010 financial statements. Ordinary and customary reconciliations between supporting third party or subsidiary data bases and the City's financial books have simply not been performed by staff for many years. As a result, systems are out of balance and some balances reported in the City's financial statements are unsupportable.

Our research indicates a material overstatement of reported City assets and available balances in the General fund for the year ending in June 2010. Following is a list of necessary restatements.

- Cash - $500,000 was double counted for General Fund parking ticket revenues and their corresponding cash receipts through June 2010. For 2 ½ years, two different Police Department employees faithfully recorded the same set of cash receipts, one on a daily basis and one on a monthly basis. Administrative Services staff posted the daily receipt batches to the City's general ledger based upon deposits to the third party parking administrator's bank account in addition to the monthly cash receipt when program revenues were transferred by the administrator to the City. Daily and monthly bank reconciliations should have identified and protected against this type of misstatement.

- Accounts Receivable - A careful "aging" review has indicated that the net realizable value of General Fund accounts receivable at June 2010 was overstated by an estimated $2.8 million. Where possible, collection efforts will continue, but we believe the net value of the assets needs to be written down through an "allowance for doubtful accounts" to reflect the likely net realizable value of the asset to avoid overstatement of current, spendable resources. If and when the accounts are collected, they can be written back up to their original value and be available for programming in a future year. However, some of these receivables are four years old, ten years old or even older. This had the affect of overstating our financial position when developing budgets.

Accounting standards require that recognized revenues be realized within 90 days of year end to be available to finance the operating costs attributable to the year, or, in the alternative, to be "deferred" until the year that they are converted to cash. The City has not followed this accounting standard and as a result has overstated its available balance. The objectives for accounts receivable "allowances" and "deferrals" are to measure and report the underlying liquidity of funds available to finance current operations on June 30th.

The largest component of the proposed write-down is a million dollar aged balance carried over several years that is due from the independent Fire Districts in the County that are serviced by the City's Fire Department. This subject was the topic of a Council staff report in December 2011. A settlement with the districts has been developed that will permanently write-off the uncollectible portion of this balance. Since this revenue was not available to finance 2010-11 operations, the impact of the write-off should be pushed back to the June 2010 fund balance.

The next most significant receivable adjustment is for parking ticket collections. Police and Finance Department staff have worked with their contractors to update their collection methods and assessment of aged parking tickets. Estimated realization has eroded during the past year. A total of $649,000 is proposed for adjustment in this category based upon the contractor's assessment that 50% - 60% of delinquent balances that are under one year old will be collected. Older balances have been estimated with a sliding scale down to a 0% collection estimate for balances over three years old. The City contracts for both parking ticket administration and collection services to manage its parking ticket revenues.

The following is a recap of the receivable balances at risk for collection that are now judged to have not been available to finance operations at June 2010:

Fire Districts	$1.0 million
Parking Tickets	0.6 million
Garbage collections (pre-2002)	0.3 million
Fire mutual aid (5 years old)	0.2 million
Other programs (net)	0.7 million
	$2.8 million

These proposed June 2010 restatements will next be reviewed by the City's new outside auditor who will test and validate the proposed presentation. In some cases, less significant items might be consolidated with current year activity in the City's published financial statements while significant adjustments will be displayed as prior period adjustments to the beginning fund balance. Restatement and isolation of prior year impacts helps "right size" the reported current year operating results to best use as a base for out year comparison and projection.

- Wages Payable Liability - An error in the amount of $315,305 in the wages payable liability account was inadvertently posted in March of 2005. This is an account that should clear to zero after each pay period. The City-wide wages payable liability account had not been reconciled by accounting staff from 2005 through 2011. Reconciliation of subsidiary ledgers to the general ledger is a normal and customary accounting function that provides a safety net to identify posting errors on a timely basis. This is another example of failures in accounting and auditing controls.

- Expenditures – Adjustments to expenditures including a write off of $181,236 due to a cash variance, clean up of misstated expenditures in the amount of $68,798 related to inventory and payables, and a correction of $96,286 to align a deposit liability with a subsidiary ledger.

Below is a schedule of the General Fund Available Fund Balance at June 2010 as originally posted, with recommended adjustments. Staff recommends transfers from unrestricted funds be made to balance the General Fund at June 2011. The specific adjustments are described later in this staff report.

The net impact to the General Fund "available" fund balance at June 30, 2010 is a reduction of approximately $3.8 million. The following table provides a summary of the recommended adjustments:

General Fund
Available Fund Balance
June 2010 - Restated

June 2010 Available Balance, as previously reported in 2010 CAFR (General Fund only)	$ 1,101,075
Adjustments	
Cash and Investments:	
Parking Citations - double counted revenue	(496,528)
Accounts Receivable:	
Accounts receivable/deferred revenue	(2,774,919)
Expenditures:	
Cash - write off variance	(181,236)
Expenditures misstated (inventory, payables)	68,798
Deposit liability out of sync with subsidiary ledger	(96,286)
Correction of 2005 Wages Payable Liability	(315,305)
	(3,795,476)
June 2010 Available Balance, as restated	$ (2,694,401)

2010-11 Results Update

The ending available balance of the City's General Fund at June 2011 has eroded significantly from the $722,000 surplus estimate that was last provided to the City Council in the August 23, 2011 budget report. The estimated General Fund ending available balance is now a deficit of $6.6 million. The two primary factors in this change are the impact of the change to the beginning balance described above, and a necessary Redevelopment Agency subsidy. The recommended adjustments to the June, 2010 available fund balance, for example, correspondingly reduces the 2010-11 ending available balance by $3.8 million. A more comprehensive description of changes, is provided below. Some of this is typical for year end accruals to close out the year. Some are atypical due to poor fiscal management. For example, revenues sometimes do not come in until long after the year the revenue was earned in is closed.

Revenue

When compared to what was estimated in the August report to the City Council, additional revenues in the amount of $1.9 million were received in 2010-11. Below is a description of these increases:

- Actual Sales Tax revenue came in $500,000 higher than projected at that time, with sales for the quarter ending June 2011 up 10% compared to the same quarter in

2010. Higher fuel prices and strong sales by new motor vehicle dealers were primarily responsible.
- An unexpected catch up payment of State Motor Vehicle License fees was received, adding $145,000.
- In the Taxes and Other General Sources category, Property Taxes, Business License Tax, and Interest were also slightly higher than previously projected.
- Revenue associated with the Police Department's supplemental contracted police services offered to local businesses and organizations accounts for $620,000 of the revenue increase. This revenue was offset by an increase in Police Department expenses associated with this program of $500,000.
- The August 23, 2011 revenue estimate included adjustments for the Fire District contracts and Parking Ticket uncollectible balances. After further research, it was determined that these uncollectible balances belonged in prior fiscal years. The 2010-11 revenues were adjusted upward to reflect only 2010-11 activity.

Expenses

Expenses have increased $5.2 million from the amount estimated in the August 23, 2011 budget update. The largest contributor to this increase is a $3.9 million subsidy for the Redevelopment Agency. The other major adjustments include a $500,000 subsidy to the Development Services fund, a $650,000 payroll tax liability accrual, the $500,000 added for Police Department contract expenses discussed above and a $300,000 correction related to the COPS Hiring Recovery Program. More detailed information is provided below:

- Since the August 23rd, 2010-11 budget update report, the State Supreme Court has ruled to uphold ABX1 26 and as a result, the Stockton Redevelopment Agency, along with all other Redevelopment Agencies in the State, was dissolved as of January 31, 2012. At June 30, 2011 the Redevelopment Agency had a deficit of $3.9 million. This deficit is due to overspending and ongoing revenue declines in prior years. The General Fund is forced to provide funding to offset the deficit issues described further below:
    - The Redevelopment Agency has overspent its available revenues. This condition has built up over a period of years. The Agency's cash overdrafts during this time have been papered-over with unauthorized working capital loans within the Redevelopment Agency and loans with the City that were not specifically called out nor understood. The North Stockton and Waterfront Project areas have a combined overdraft of approximately $9 million. Other Redevelopment Agency funds, including Midtown, South Stockton and the Affordable Housing programs have cash surplus balances of approximately $6 million. The Agency's total cash position at June 30, 2011 is an overdraft of $2.7 million.

  - The Redevelopment Agency funded a project (the Edward C. Merlo Institute of Environmental Technology Gymnasium on the William Brotherhood Park site) through a mix of Strong Neighborhood Initiative bond proceeds and a reimbursement agreement from the school district. Unfortunately, the same set of costs were reimbursed from both bond proceeds and by the schools, creating an ineligible "double dip" recovery not allowable from tax exempt bond proceeds. This issue was undetected from 2009 through 2011 due to incomplete reconciliation of available bond proceeds, project commitments, and bond trustee account balances. $1.2 million of Redevelopment Agency cash at June 2011 must now be set aside for replenishment of the trustee's fiscal agent bank balance to restore compliance with bond covenants.
- A subsidy to the Development Services Fund has been added to cover receivable allowances, unanticipated leave buy-out and cost allocation plan impacts. The Development Services Fund is expected to collect the receivable in 2011-12 and has already made progress on this collection.
- Payroll Tax Liability Accrual – Some employee retirement and retiree medical trust contributions were incorrectly treated as pre-tax in the calculation of employee payroll tax withholdings. The City is working with employees, their unions, and the IRS to correct the payroll tax deductions. It is estimated that the City might be required to pay $650,000 to correct and settle this matter. This amount is being accrued to the 2010-11 fiscal year.
- In 2009 the City of Stockton accepted a COPS Hiring Recovery Program Grant in the amount of $7,932,160 that funded 20 Police Officers for three years. The grant only funded the cost of entry level Police Officers and not all employee benefits were eligible under the grant. Actual Police Officer salaries and benefits exceeded the grant funding in both 2009-10 and 2010-11. A transfer of $107,000 was budgeted to pay for the cost above the authorized grant funding. A reconciliation of CHRP expenses showed that the City needed to fund an additional $135,000 in 2009-10 and a total of $164,000 in 2010-11. Expenses totaling $300,000 have therefore been moved to the General Fund. This expense is offset by the $107,000 originally budgeted.
- There are other minor expenditure adjustments that require increases in the General Fund transfers to the Recreation Fund ($20,000), Housing Grant Funds ($87,568), and Debt Service Fund ($6,000).
- These additional expenses were partially offset by approximately $486,000 in savings in the Peacekeeper Program and other programs.

The balance at June 30, 2011 is estimated to be a deficit of approximately $6.6 million. It should be noted, however, that these are still preliminary estimates, since the City has not officially closed its books, nor has the City's outside auditor reviewed the City's 2010-11 financial statements. The following chart provides a summary of changes to the 2010-11 General Fund Available Fund Balance made since the August 23, 2011 City Council budget update:

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General Fund
2010-11 Year End
Changes since August 23, 2011

	Major Taxes	Program Activity	Police Contracts	Other Support	Current Projection
June 2011 Available Balance, as reported in open session Aug. 23, 2011					722,257
June 2010 Available Fund Balance update		(3,795,476)			(3,795,476)
Revenue					
Taxes and other general sources	875,647				875,647
Program sources		164,495	620,889		785,384
Fire District Contracts		241,920			241,920
Other items					-
					1,902,951
Expenditures					
Programs					
Police Department		(34,397)	(832,639)		(867,036)
Department Updates (PW, ED, Fire)		(150,744)			(150,744)
					-
Program Support for Other Funds					
Redevelopment backfill				(3,875,976)	(3,875,976)
Recreation/Golf				(70,063)	(70,063)
Grant Match			34,397	(87,568)	(53,171)
Development Services				(526,069)	(526,069)
Other Funds				105,334	105,334
Compensated Absences				302,083	302,083
Administration					
Administration Dept. Updates		40,923			40,923
External Auditor		(62,360)			(62,360)
Peacekeeper/Other Program Savings		486,243			486,243
Payroll Tax Accrual		(650,000)			(650,000)
Labor/Legal		54,002			54,002
Debt Service		(2,496)			(2,496)
					(5,269,330)
Reserves		(113,558)			(113,558)
Net Change since Aug. 23, 2011	875,647	(3,821,448)	(177,353)	(4,152,259)	(7,275,413)
					-
June 2011 Available Balance, as restated					(6,553,156)
					-

2011-12 Budget Update

During the budget update on October 18, 2011, the City Council took a number of actions to address $4 million in 2011-12 budget issues that had developed during the first quarter of the 2011-12 fiscal year. The largest causes of the projected shortfall were an unexpected erosion of property tax and the state redirecting vehicle license fee revenue collections. These impacts were largely offset through the availability of unbudgeted one-time grant sources, vacancy savings, and a draw of $1 million of the $2 million budgeted contingency. Since October additional 2011-12 problems have been identified. Staff currently estimates that the General Fund is now facing an operating shortfall of approximately $8.7 million.

The changes from the previous estimate are a combination of an estimated decline in revenue of $825,000, and an increase in projected expenditures of $7.8 million. Major Tax revenues are actually up by $1.4 million, but these gains have been more than offset by a shortfall in Police Department program revenues. Expenditures have increased $7.8 million primarily due to Redevelopment backfill, Pension Obligation Bond shortfall, Public Facility Fee debt shortfall, and increased estimates for labor negotiations and legal costs. Both revenue and expenditure projection changes are described in more detail below.

- Major Taxes
  - Property Tax – Projections are slightly lower ($100,000), based on an updated estimate from the County Auditor-Controller's Office provided November 30, 2011.
  - Sales Tax – The revised sales tax estimate has increased by $530,000 based on recent information from HdL Corporation, the City's sales tax consultant. This increase is primarily driven by rising fuel prices and improved sales in the auto and transportation industry.
  - Franchise Tax – The City will benefit from a one time true up of $700,000 in 2011-12 as Comcast moves from a local franchise agreement to the state franchise agreement. Currently Comcast remits on a calendar year basis but this will change to a fiscal year basis when their local franchise agreement expires in April 2012. A portion of this increase has been offset by a decrease in franchise revenue from the waste haulers. A 2% increase in franchise revenue from the waste haulers was anticipated in the adopted budget. Year to date revenues indicate a 1% reduction compared to fiscal year 2010-11 actual revenue. The revenue loss is primarily due to declines in commercial and industrial waste collection. The 2011-12 revenue projection has been reduced $234,000.
  - Business License – The business license revenue estimate has been revised based on actual revenue received in 2010-11. The revised business license revenue estimate remains at 1% below the amount received in 2010-11.
  - Investment Income – The estimate of interest earnings has been adjusted to reflect the true General Fund negative cash position and interest cost.

- Other Revenue Updates
  - Fire Districts – The City now anticipates collecting $1 million of unbudgeted, prior year Fire District contract revenues based on the amended agreement with the Fire Districts approved by Council in December 2011.
  - The Redevelopment Pass Through revenue estimate has been reduced $105,000 to reflect the expected decline in Redevelopment Agency tax increment.
  - Police Department Revenues – The Police Department now anticipates a $1.9 million program revenue shortfall concentrated in three major areas: parking fines, code enforcement, and vehicle impound fees. The department cites staffing shortages and vacancies as the primary cause for all three of these shortfalls, and has proposed a plan to backfill some current vacancies with part time help to try to recapture some of these revenues prior to year-end. This projection does not rely on recaptured revenues at this time, but an opportunity might exist to recapture some of these revenues. The current projection does, however, include the department's updated vacancy savings estimate which adds $300,000 in savings to partially offset these revenue losses.
  - Prison Grant – A State grant to mitigate Prison construction impacts had been added to the General Fund budget during the October 18, 2011 budget report. Further dialogue with the state indicates this will be restricted for related capital projects and is not available for general City use. This $347,000 grant has been removed from the projection.
  - Indirect Cost – Estimated $500,000 decrease in indirect cost revenue paid to the General Fund by other City funds. This is a placeholder value pending a revision to the City's Cost Allocation Plan.

- 400 E. Main Street Move

  The City Hall move to 400 E. Main has been postponed at this time. City hall space allocations to non-general fund programs, such as housing and utilities, have been restored as current year General Fund revenue (+$294,000). In addition, General Fund department rental charges for 400 E. Main occupancy have also been reversed from General Fund expenditure budgets (+$512,000). However, due to loss of anticipated City occupancy non General Fund budgeted rental payments, the 400 E. Main fund is now expected to need a General Fund back fill of approximately $800,000 to cover its debt and operating costs. The 400 E. Main fund has experienced high variable interest costs during the year due to market reaction to credit risk in the City's bond liquidity provider, Dexia, a troubled European bank. Interest rates on these bonds were budgeted at 3%, actual weekly rates had exceeded 4% but have now drifted back just below 4%. The net 2011-12 General Fund impact of the delayed 400 E. Main move approximately breaks even, with higher revenues and higher net expenditures, with nominal net change.

- Pension Obligation Bonds (POBs)
  The City issued POBs in 2007 with an objective to reduce the interest cost on its unfunded pension liability with CalPERS. Unfortunately due to the poor timing of this issuance, CalPERS lost an estimated 24 to 30 percent of the principal due to investment losses. The POBs were intended to reduce the City's long-term CalPERS contribution rates and substitute with a lower bond payment. The bonds were structured with deferred principal retirement in the first few years and an increasing annual debt service cost. In past years, the City accumulated the resources to make the bond payments with a pension benefit rate surcharge through its labor budget. While estimated 2011-12 workforce reductions were included in the 2011-12 pension rate development, the ultimate number of position reductions and further vacancies have generated an estimated $1.2 million shortfall in this contribution, of which the General Fund share is approximately $876,000. Prospectively, to avoid unexpected impacts from workforce fluctuations, in future years these bond payments will be budgeted as a fixed cost.

- Redevelopment Update
  The General Fund is at risk for an estimated 2011-12 Redevelopment Agency operating deficit. First, because the City has pooled Agency cash to reduce it's unauthorized working capital loans at June 30, 2011, the Redevelopment project areas are not expected to have sufficient cash flow for operations in 2011-12. Second, Redevelopment revenue projections (due to revised estimates from the County Assessor) have eroded the Agency's revenue projection by $1 million from budget. The result of recent redevelopment actions is a projected 2011-12 General Fund backfill for Redevelopment activities of $3.1 million. The chart below reflects the $2.1 million update since the October 18th briefing.

- Other Operating Costs
  Other expenditure updates include new County election cost estimates from the County, recent contract awards for Federal/State advocates that no longer have an RDA subsidy, property tax administration charges recently received from the County, external audit costs, and negotiated labor costs. A placeholder estimate of $100,000 has been added for additional external audit costs due to the significance of restatements to prior audited balances and for risks related to the City's solvency. We will look to the City Auditor to obtain and evaluate a revised fee proposal from the external auditor for consideration by the City Council. On October 18, 2011 the Council approved a Memorandum of Agreement with the Fire union that extended the eligibility for some Longevity pay to July 1, 2012. This expense was part of a resolution of the Fire union's arbitration claims that would have avoided $4 million in general fund costs. The implementation of this extension for the Fire union members and all other employees will result in an additional cost of $128,000 to the General Fund.

- Labor/Legal Costs
  Estimated costs of $3.5 million have been added as a placeholder for an extensive confidential neutral mediation process (AB506) and contingency planning costs, increasing by $3.5 million labor/litigation/debt/actuarial analysis appropriation in the adopted budget. The proposed actions in this report will require significant assistance from bond counsel, labor counsel, labor consultants, debt consultants and project management. This will also pay for the Management Partners, Inc. firm to assist the City through the AB506 process, actuarial work to address retiree health options, etc. We also may be contractually required to pay for some debt holder's expenses due to participating in this confidential process. AB506 reflects new law and has not been utilized by any local government in the state. The process is a new state mandate, which if successful, will produce $20 million or more in savings for next fiscal year. It may resolve litigation exposure for this year and previous years as well.

It is important to note that the current year projections are based on imposed reductions to Stockton Police Officers Association and Stockton City Employees Association of over $11 million in the General Fund. These reductions to Add Pays and benefits were similar to reductions agreed to by other labor units. Unfortunately, these impositions are the subject of current litigation and pose a risk to the General Fund. The City does not have the resources to pay for these concessions should their litigation be successful.

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General Fund
Midyear Update of Known Budget Impacts
2011-12
Changes since Oct. 18, 2011

	Major Taxes	Program Activity	400 E. Main Move	Other Support	Current Projection
Net Annual Activity, as reported Oct. 18, 2011					-
Revenue					
Property Tax	(100,200)				(100,200)
Sales Tax	530,000				530,000
Utility User Tax	95,000				95,000
Franchise Tax	451,000				451,000
Other - Business License/Document Tax	440,000				440,000
Interest				(528,000)	(528,000)
Redevelopment Pass Through		(105,000)			(105,000)
Fire District Contracts		925,000			925,000
Police Department program revenues		(1,953,000)			(1,953,000)
Restricted prison grant not available for general use		(347,000)			(347,000)
Indirect Cost Plan				(500,000)	(500,000)
Rent from Non-General Fund Dept			294,000		294,000
Other items				(27,599)	(27,599)
					(825,799)
Expenditures					
Pension obligation bonds - insufficient rate for current staffing				(876,000)	(876,000)
Public Facilities Fee Bonds				(680,839)	(680,839)
Redevelopment backfill - net savings from bond conversion				(2,100,000)	(2,100,000)
Other Cost updates					
Police Department Vacancy Savings		300,000			300,000
Longevity Cost - Fire MOU		(128,500)			(128,500)
Federal/State advocates (loss of RDA subsidy)		(144,000)			(144,000)
Election Costs		(240,000)			(240,000)
Property Tax Administration		(70,000)			(70,000)
External Audit Costs		(100,000)			(100,000)
400 E. Main Building - no rent payment			512,370		512,370
400 E. Main Subsidy			(800,000)		(800,000)
Labor/Legal/Actuary/Project Management					
AB506/contingency plan		(3,500,000)			(3,500,000)
					(7,826,969)
Net Change since Oct. 18, 2011	1,415,800	(5,362,500)	6,370	(4,712,438)	(8,652,768)
					-
Revised Ending Available Fund Balance					(8,652,768)

Present Situation

Solutions

The combined 2010-11 deficit of $6.6 million and projected 2011-12 deficit of $8.7 million have created a $15.2 million shortfall in the General Fund at June 30, 2012. To address this shortfall, staff recommends multiple transfers of available funds from unrestricted sources and the suspension of debt payments from unrestricted funds for the balance of this fiscal year.

General Fund
Status of Unrestricted Funds
Projected at June 30, 2012

	Current Projection
Requirements	
General Fund at June 30, 2011	(6,553,156)
General Fund at June 30, 2012	(8,652,768)
Subtotal, Requirements at June 30, 2012	(15,205,924)
Solutions/Options	
Special Revenue Funds	
Library	720,995
Measure W	1,232,000
400 E. Main Operating Fund	589,025
Entertainment Venues	570,000
Capital Funds	
General Capital Fund	798,309
ESB & 400 E. Main Capital Fund	1,929,706
Internal Service Funds	
Fleet	2,286,061
Retirement	3,731,170
Trust Funds	
Arts Endowment	1,300,000
City March to June 2012 Debt Service	2,048,658
Total Solutions	15,205,924
Net Unrestricted Funds, June 2012	$ 0

The "solutions" strategy listed above proposes transfers of unrestricted resources from programs outside of the General Fund. As mentioned previously, many of the fund balance amounts listed above are preliminary and unaudited numbers subject to change. The final ending balances less 2011-12 operating deficits and some capital commitments will be the amount actually available to transfer. Almost all of these transfers are reserves which were accumulated by these programs for strategic reasons, such as equipment replacement, and are only recommended to be utilized given the severity of this fiscal deficit. We still have four months left in the fiscal year with no reserves. As a result, we feel we need to take these actions to avoid an uncontrolled insolvency or default. We still have four months left in the fiscal year with no reserves. This provides the time to show good faith in complying with the new state mandated process found in AB506. The following list reprises the proposed transfers and program impacts:

- Sweep Library fund balance and cancel selected capital projects
  - Two large and much needed roof, HVAC, and building repair projects for the Angelou and Chavez facilities would be retained.
  - Impact: The Chavez repair and renovation will be canceled and the library minor repairs account will be closed. The General Fund would become the default contingency for unexpected operational shortfalls or facility repairs, similar to other programs with direct General Fund support.

- Draw Measure W reserves through additional staff allocations
  - Impact: The General Fund would become the default contingency if the Measure W sales tax revenues aren't realized at the budgeted rate.
  - This is a particular risk since sales tax receipts are reported to the City by the State Board of Equalization up to three months in arrears. Without reserves, the budgeted expenditures are spent and service provided before the revenues for the year are confirmed.
  - Further, this draw on reserves moves us even further away from being in compliance with the Measure W policy for a reserve that is 25% of budgeted revenues.

- Sweep the 400 E. Main operating fund balance
  - Impact: Sweeping the 400 E. Main reserve will also push the operating risk contingency back to the General Fund.
  - Operating revenue risk for this program is the continued leasing and collection of commercial tenant revenues.
  - Operating expenditure risk includes building maintenance but also the variable interest rate on the bonds used to purchase the building. The fund also bears the acceleration risk of principal payments on the bonds if the current bank bonds, held by the City's liquidity provider, Dexia, if they are unable to be resold to the market.

- Sweep Entertainment Venues fund balance
  - Impact: 2010-11 results, including the wrap up of IFG/SMG transition, have resulted in a surplus that could be swept back to the General Fund. The Entertainment Venues Fund has additional cash available due to correction of the balances reported in the 2010 CAFR for this program.

This is yet another restatement of previously audited 2010 balances, this time in a positive direction. The contract with the new SMG Entertainment Venue operator includes a requirement for a third party audit. Their audit has been submitted and supports the ending balance available to reduce the General Fund subsidy on a one-time basis at June 2011.

- The Arena business model does not include an operating fund balance reserve, further exposing the General Fund for unexpected operating and facilities maintenance requirements.

- Sweep unencumbered General Capital Projects fund balance and cancel most if not all projects not yet in progress
  - Impact: The most significant impact of this sweep would be the continued erosion of contingency reserves and appropriations for major maintenance projects of City facilities and buildings.
  - Up to $1.3 million in projects have been appropriated, but contractual obligations have not yet been committed.
  - Impacted projects will cross City programs and buildings.
  - Separately, the local match appropriation for a large federal grant program would be retained, as well as some small contingency repair funds.
  - Over $250,000 of the uncommitted funds considered for cancellation relates to Arena projects anticipated by the City's new operator, SMG, which could impair their business plan. Other appropriations evaluated for cancellation include asbestos removal, ADA projects, an electrical power upgrade, a HVAC upgrade to the animal shelter, and roofing projects.

- Sweep cash that had been appropriated for City Hall moving costs to 400 E. Main
  - Impact: Relocation of City Hall operations would be deferred until a replacement funding source could be available to fund the move.

- Sweep Internal Service Fund balances for Vehicles, Pension, Unemployment, and LTD/Life Insurance. These funds had accumulated prudent reserves to buffer unexpected cost impacts.
  - Impact: Without reserves, the business risk for these programs would now fall back to the General and other operating funds. We have huge investments in vehicles for Police and Fire that are core to delivering on their mission. We are behind in setting aside adequate replacement funds.
  - Fleet: The vehicle fund has a cash balance of $4 million at June 2011. However, replacements in recent years have been severely held back due to the limitations of the cash flowing into the fund from budgeted program contributions. The current year replacement budget of $2 million has increased from prior levels, but current department charges are still insufficient to fund a normal ongoing replacement schedule. Sweeping

this cash will diminish the program's ability to address its aging fleet and it will no longer be accessible to catch up replacements from years of underfunding. Fleet is saying they can sustain their known replacement schedules after this sweep, but they will have no reserves for the unexpected and they will likely have to increase rates in future years.

- Retirement: The retirement fund also holds a significant $5 million cash balance at June 2011. This cash is accumulated throughout the year to provide cash flow to fund the annual $7 million debt service payment each August. Sweeping this cash will result in the fund's draw on pooled cash from the time of the debt payment, with replenishment during the course of the fiscal year. The ultimate impact will reduce the City's overall liquidity and increase the program's interest costs during the year.
- Reserves in these Internal Service Funds have accumulated through contributions from all City programs, both restricted and unrestricted. Transfers of surplus back to the contributing funds would be proposed in the same proportion as the source contributions.

- Cancel and take back $1.3 million endowment from the Arts Commission
  - This endowment was established by the City Council and could, as a matter of policy, be liquidated and transferred for other use. Income from the trust currently typically funds $50,000 annually in community arts grants. As an alternative, if the trust were to be liquidated, the General Fund could directly contribute $50,000 per year in grant appropriations from its annual tax revenues to make the program whole.

- Debt service payments of approximately $2 million are due to be paid from unrestricted funds between now and June 30, 2012. $1.5 million is due collectively on the 2004 Parking Bonds and the 2009 Public Facility Fee bonds. An additional $500,000, paid through monthly installments, is due on the variable rate 400 E. Main bond obligation. As discussed below, suspension of debt payments for the balance of this year will ensure we continue operations within available resources this fiscal year.

Fiscal Year 2012-13 Projection and Beyond

The Budget Office has developed a Four-Year General Fund Forecast model that projects revenue and expenses for fiscal years 2011-12, 2012-13, 2013-14, and 2014-15. Attachment A provides the detail of the 2012-13 projection from this forecast. The City's annual projected General Fund deficits in this forecast range from $20 to $28 million over the next three years under the "best case" scenario.

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The chart below summarizes the deficits projected in the Four-Year Financial Forecast assuming nothing is done to address the problems (the chart includes the Baseline 1, "best case", assumptions described below):

General Fund
Four-year Financial Projection

	2011-12	2012-13 Baseline #1		2013-14		2014-15	
Revenues							
Marjor Taxes	135,826,195	134,841,919	-1%	134,558,652	0%	136,197,953	1%
Other Revenues	22,176,319	20,067,647	-10%	19,853,792	-1%	19,664,632	-1%
	158,002,514	154,909,566	-2%	154,412,444	0%	155,862,585	1%
Expenditures							
Salaries & Benefits	115,082,008	121,585,664	6%	125,976,771	4%	128,544,213	2%
Services & Supplies	33,146,646	32,233,077	-3%	32,790,546	2%	33,286,321	2%
Other Program Support	17,576,628	19,298,365	10%	19,590,919	2%	19,900,652	2%
Contingency	850,000	2,000,000	135%	2,000,000	0%	2,000,000	0%
	166,655,282	175,117,106	5%	180,358,236	3%	183,731,186	2%
Net Annual Activity (Best)	(8,652,768)	(20,207,540)		(25,945,792)		(27,868,601)	
Net Annual Activity (Worst)	-	(38,182,873)		-		-	

Two 2012-13 scenarios were developed to present a range of potential fiscal outcomes. Baseline #1 represents a more "optimistic" projection, with slightly more positive revenue projections, and a presumption that most or all of the labor cost reduction measures imposed this fiscal year will continue on in fiscal year 2012-13 and that we will prevail in all of our lawsuits. Baseline #2 includes less optimistic revenue projections, especially relating to the prospect of stabilized property tax revenues and a presentation of the costs if some of the key labor reduction measures are not upheld, essentially we "turn off" all emergency imposed concessions.

When looking at Attachment A, the 2012-13 Baseline #1 projection shows a deficit of $20 million and a $38 million deficit with 2012-13 "Baseline #2" assumptions.

These deficit projections are driven by a series of factors, the most significant of which were anticipated further property tax revenue declines, potential migration of the Code Enforcement program off the County Teeter distribution plan, expiring Federal police grants, increasing pension, pension bond, and retiree health costs, and the impact of a base 2011-12 budget balanced with one-time grants, transfers, and vacancy savings.

The section below discusses the assumptions behind Baseline #1, the best case scenario. In Baseline #1 an overall 2% decrease in General Fund revenues is projected due to property tax declines, potential migration of the Code Enforcement Teeter Plan impacts, and the discontinuation of one time revenues received in 2011-12.

- Property Taxes are expected to decline 5% or $2.2 million in Fiscal Year 2012-13 based on discussions with both the San Joaquin County Assessor and the City's property tax consultant, HdL Companies. Property values are expected to continue to decline because of declining home prices and Prop. 8 reductions.

- The Code Enforcement revenue estimate presumes a discontinuation of the application of the County's "Teeter Plan", where the County covers the cost of delinquent City Code Enforcement liens. County staff has proposed this change to the Board of Supervisors to begin next fiscal year. The impact of that change has been estimated to be a loss of approximately $500,000 or more to the City.

- Franchise Tax and Fire District Contract revenues were higher in 2011-12 due to receipts of one time funds. Projected 2% growth in Franchise revenue is offset by the $700,000 one time Comcast revenue received in 2011-12 for a net decline of $535,000. The Fire District revenue has been decreased by the $1 million one-time prior year payment received in 2011-12.

- Sales Tax revenue is estimated to increase $1.7 million based on trends from the last two quarters and a more optimistic projection received from the City's Sales Tax consultant, the HdL Companies. HdL also projects a higher County ERAF sales tax backfill payment of about 13% in 2012-13 due to a $440,000 true up of 2011-12 sales tax revenue. Without the above adjustments, HdL's baseline sales tax projection is up 3% for 2012-13.

The 2012-13 Baseline #1 projection assumes employee compensation is the same as in 2011-12. Overall labor costs, however, are projected to increase 6% over 2011-12 costs due to: expiring Federal police grants, increasing pension, pension bond, and retiree health costs, and a base 2011-12 budget balanced mid-year with one-time grants, transfers, and vacancy savings which cannot be repeated in future years.

- The three year Federal COPS Hiring Recovery Program (CHRP) grant ends at June 30, 2012 and requires that the City keep the 20 Police Officers for a minimum of one year after the grant expiration. This is an increase of $2.8 million to the general fund. The 2012-13 projection also includes $100,000 to provide a local match of salary and benefit costs for the new federal Community Oriented Policing Services Hiring Program Grant recently accepted by the Department. This $7.8 million grant will fund 17 police officers for three years.

- CalPERS provided rates for Fiscal Year 2012-13 in October 2011. The Safety rate increased from 29.099% to 31.79%, a 9% increase. The Miscellaneous rate actually dropped slightly from 16.941% to 16.881%, a decrease of 0.4%. Combined this is an additional cost of $730,000 to the General Fund in 2012-13. After these projections, CalPERS has recently recommended a reduction in their actuarially assumed interest rate (from 7.75% to 7.5%) effective July 1, 2013 which, if approved, will increase our safety rates from 32.5% to 40% and miscellaneous from 17.4% to 22%. This would create an approximate increase of $6.7 million in all City funds, and of this approximately $4.4 million would be paid by the General Fund. This is not factored in our projection.

- Retiree health pay-as-you-go cost will increase in the General Fund by over $1 million due to an increase in the number of retirees and a projected 10% increase in health care costs. As you know, most retirees pay nothing towards health insurance.

Significant adjustments to the 2012-13 services and supplies budgets include legal costs, general liability insurance and equipment internal service fund updates.

- The legal and miscellaneous services budget was reduced by $3 million to reflect the City's legal cost in a more typical year. This will be largely impacted by the AB506 process.
- Based on new actuarial reports, the General Liability Insurance charges have been increased to cover costs based on actuarial cash flow projections and are designed to break even on a cash basis. The General Fund impact is an increase of $660,000.
- An additional $1 million increase came from the updated internal service rates for equipment programs. In prior years and originally expected in the near future, these internal service funds have operated at deficits and drawn down their fund balances. Available balances have been proposed for sweep at June 2012 and are no longer available to cover ongoing program deficits.
- Other projected costs increases include election costs, property tax administrative costs, state and federal advocacy contracts that can no longer be charged to Redevelopment, external auditor costs, fuel costs, and Police and Fire recruitment costs. New cost information received from the County on property tax administration and election costs have been added to the General Fund projections. Polygraph and psychology test costs for Police and Fire recruitments have been absorbed by department vacancy savings in 2011-12 but are now added back as new baseline costs in 2012-13. The Public Works Department reviewed fuel usage and pricing and proposed three scenarios. The fuel cost increase of $241,000 is based on the mid-range of the proposed scenarios.

The Other Program Support section includes operating subsidies for Library, Recreation, Golf, and Entertainment Venues; grant match funds, general capital expense funding; and debt supported by the General Fund. City staff has revisited all funds with operating deficits in the 2011-12 adopted budget and identified additional funds at risk for General Fund support. These funds have been drawing from their fund balance reserves through June 2012:

- A $350,000 subsidy for the Golf Course Fund has been added to projected General Fund costs. In prior years, annual deficits in the Golf Program have been absorbed the Recreation Fund, which is now out of reserves and no longer available to support the Golf operation.
- Library and Recreation Fund subsidies have been increased by $100,000 and $85,000, respectively, to cover projected increases in salary and benefit costs.
- The General Fund subsidy for the Entertainment Venues Fund has been reduced by $200,000 based on the business plan proved by SMG.
- Grant match funds have been reduced from $300,000 to $50,000 due to the expiration of the CHRP grant.
- Capital improvement support has been returned to the original 2011-12 budget level of $575,000. Since City staff will not be moving to the 400 E. Main Building additional repairs may be needed in City Hall.
- The 2012-13 projection reflects the net impact of the delayed move of City staff into 400 E. Main St. ($600,000), and the fact that interest payments on the variable rate bond for this building have increased ($400,000). Staff is working with the Real Property manager to identify operational savings that may be generated from the now vacant "future" City Hall space. The deficit in the adopted 2011-12 budget for this fund will continue into the next few years without rent from City departments. The General Fund forecast now includes a net $1 million subsidy for the only partially occupied 400 E. Main St. building. We are working on reducing this number.
- The General Fund will be called upon to backfill development revenues that are insufficient to cover Public Facility Fee Debt bond payments which are backed by the General Fund. The General Fund subsidy is projected to increase from $620,000 to $1 million.
- Debt payments for the MUD/Howard Jarvis settlement and General Fund assistance for Redevelopment activities, the Downtown Marina, and Debt administration remain level in 2012-13.

The General Fund Contingency account in 2012-13 has been restored to the $2 million level.

As we contemplate a strategy to extricate the City from this situation it is important to note that financial projections for the next several years continue to show that the City's current fiscal condition is not temporary, and we cannot expect to simply wait to grow out of this problem. Furthermore, your Council has to adopt a balanced budget by June 30th of each year.

Ongoing Issues

The projections discussed above include the quantifiable and known budget impacts to the General Fund. However, the General Fund remains at risk for a number of other serious but un-quantified and unresolved issues.

County Teeter Program – As discussed above, in response to high delinquency rates on district assessments, County staff have proposed a change to its "Teeter" method of tax distribution. Under the current plan, the City receives 100% of all taxes and assessments levied, including substantially all Code Enforcement liens. The County covers the delinquent taxes in exchange for penalties and interest earned in the period in which the delinquent taxes are collected.

Proposed changes to the Teeter Plan will have particular impact on the City's General Fund Code Enforcement revenues. The City levied approximately $2.4 million in code enforcement fees, fines, abatement charges, interest, and penalties on the County tax roll for 2011-12. Changes to the County's Teeter Plan began in 2009 when the County imposed restrictions on lien payments by comparing the lien amount on each property to the assessed land value of the property. If the amount owed exceeded the assessed land value, the County reduced the Teeter payment down to or slightly below the assessed value. The Neighborhood Services Section of the Police Department accounted for this restriction in its 2011-12 revenue estimate.

The County recently notified the City that it has proposed removing all direct assessments from the Teeter Plan in fiscal year 2012-13. The Teeter Plan changes do not mean that this revenue will be lost, only that the County will not pay the City up front for all delinquent fees and fines. On Tuesday, September 23, 2011, the County Board of Supervisors returned this agenda to staff, requesting additional analysis of alternatives.

The risk to the City is for 2012-13. At that time, the City might need to absorb the cash flow, carrying cost and risk of unpaid property assessments. This forecast carries an assumption that the adoption of the changes to the Teeter plan would cost the City approximately $500,000 or more. There have been estimates however that this change could add as much as $2 million to our operating deficit in FY 2012-13. We will continue to monitor County action on this proposal.

Labor Contracts and Related Litigation – Modified labor agreements with cost reductions have been ratified with all groups for 2011-12 except the Stockton Police Officers' Association (SPOA) and Stockton City Employee's Association (SCEA). On June 21, 2011, the City imposed salary and benefit reductions for SPOA and SCEA employees under its May 17, 2011 emergency declaration. These impositions are the subject of litigation and present a risk of more than $11 million.

Recap of Ongoing Issues – The recommended fund transfers and other actions of $15 million address the $15 million in unrestricted fund deficits now projected through June 2012. The Four Year Forecast projects a deficit range from $20 million to $38 million in fiscal year 2012-13 and ongoing deficits ranging from $25 to $28 million in fiscal year 2013-14 and 2014-15. The ongoing issues discussed above create challenges for the General Fund as initiates its budget development process for 2012-13.

Options for Closing Gap

Revenue - To close the gap and balance the budget we must either raise revenue or decrease expenses. The City has limited options for new tax revenues. The California Constitution limits the ability of cities to increase tax revenues without voter approval. City residents already contribute supplemental sales tax revenues to Measure W (Public Safety) and Measure K (Transportation) programs. With an unemployment rate of just under 20%, residents are unlikely to have the economic footing to approve ballot measures for additional tax revenue support, either through additional sales or parcel tax options. Given our public disagreement on labor costs and well documented generous retiree health benefits, the voters will likely hesitate funding more revenues now. Furthermore, any additional revenues are at risk by various litigants with the City. However, if the voters were to approve an additional quarter (1/4) percent sales tax, for example, it could generate $9 million of new revenues per year. In any case, this hypothetical relief would only provide $4.5 million in the 2012-13 fiscal year if approved by voters in November 2012. It would be far more beneficial to seek additional revenues to support a restructured, sustainable organization.

Service Reductions - Seventy-one percent of the General Fund expenses are dedicated to labor. Another way to look at the General Fund expenses is by function and 77% of the functions in the General Fund are related to public safety (police and fire). In order to cut $20 million from the General Fund, more layoffs of staff and more reductions in public safety would be necessary. Over the past few years the City has taken the steps to cut costs. The budget gap closed last year was $37 million, before that it was $23 million, and before that $28 million. Staffing has been cut from a high of 1,886 positions in 2008-09 to 1,424 currently authorized positions. Authorized sworn positions in the Police Department have gone from 441 in 2008-09 fiscal year to 343 currently authorized. Staffing is critically low and service to the citizens of Stockton is suffering. In 2011 almost 50 firefighter positions were also eliminated.

Although Management and Council agree that programs have been cut enough and in many cases too much, this is the area where the City had the most ability to cut cost. General Fund program departments were asked to submit reduction plans to demonstrate the service level impact of the reductions necessary to balance the budget. The scope of necessary service reductions would severely redefine the City's service capacity and eliminate essential community services. Their submissions are presented in Attachment B. It is important to note that the department heads do not recommend these reductions, indeed, just the opposite. Below are some of the components of the reductions:

- An average of 15% in department service reductions would be required to achieve $20 million in expenditure savings.
- Since the most significant expenses in the General Fund are invested in public safety services (Police and Fire), reductions of this magnitude would have particularly serious consequences for services provided by those departments. For example a 15% reduction to the Police Department budget would total just over $12.7 million, and a 15% reduction to the Fire Department budget would total just under $6.0 million.
- A 15% reduction to the Police Department would require the elimination of all 30 Community Services Officers, 64 sworn officers, and a variety of other support services staff.
- Achieving a 15% reduction to the Fire Department would result in the elimination of three fire engines and 1 fire truck and the reduction to firefighter staffing on one fire truck. This would mean the elimination of 41 sworn fire positions.
- In total, department proposals would reduce the General Fund work force by up to 190 full-time positions and 6 part-time positions, in the following expenditure reduction scenarios:

5%	76
10%	136
15%	190

These kind of cuts simply pose too much of a safety risk to our citizens.

Labor negotiations - Employee compensation in the General Fund is part of a negotiated agreement. In the past the City has imposed changes to labor contracts due to the Fiscal Emergency, however, these impositions are temporary and the problem is not. Additionally, litigation is pending with labor related to the emergency impositions. In fiscal year 2012-13, it is estimated that $13 million must be renegotiated or imposed to maintain current compensation levels. This represents the $11 million of imposed reductions for the Stockton Police Officers Association and Stockton City Employees Association and furloughs for all other units. Significant compensation restructuring was accomplished last year bringing compensation for most units closer to our labor market. As we consider a plan to close the gap and look at additional changes to compensation, we must balance that with our ability to attract and retain quality employees. I highly recommend that we do not go too far below the labor market "average" for compensation. Whatever services we do continue to provide, we must provide them in a quality way. Substandard compensation will erode our capacity to do this.

Other options - Our options for raising revenue are limited. Our service levels are already critically low. Our employee compensation would fall below market if reduced by $20 million. Employees have already seen a 12-23% reduction in compensations in 2011. The City cannot continue to balance budgets without dealing with other issues driving our unsustainable fiscal environment. The City's debt, retiree health programs, and other burdensome contractual commitments must be dealt with to put the City on stable financial footing. The City must take a comprehensive approach to restructuring its obligations.

The 2012-13 General Fund projection for retiree health costs is $9 million. Retiree health costs are estimated to nearly double in ten years if left unchanged. Our retiree health insurance program is one of the most generous in the state. The irony is that we anticipate spending more for the retiree health insurance than for our employees. The near term problem from this program is due to a poor funding strategy when these commitments were made (1990's). We now have the "tail end" of a legal but mis-managed program that feels similar to a "Ponzi scheme" that has ballooned to a $434.8 million unfunded liability that would require 31.58% of the payroll to adequately fund it. I might add, due to your quick but difficult decisions last year, you reduced the reitree health unfunded liability by over $120 million. This mismanaged program, coupled with retirement benefit enhancements has put our retiree to employee ratio upside down (2400 retirees to 1424 employees).

The City is scheduled to make $13.6 million in General Fund-backed debt service payments from unrestricted resources in 2012-13. Some of these payments are administratively budgeted in other funds, such as the Parking Fund, but are ultimately paid from unrestricted fee revenues that could be redirected for other purposes if not used to pay debt. The following chart describes these unrestricted debt service payments. The significance of the projected deficit prompts a review of these obligations for restructuring options.

Debt Service Payments Backed by General Fund

	FY 2011/12 Remaining Payments		FY 2012/13 Annual Payments	
	Scheduled Amount Spring 2012	Paid from Unrestricted Funds	Scheduled Spring/Fall FY 2012/13	Paid from Unrestricted Funds
2007 Pension Obligation Bonds Paid by Pension Internal Service Fund Source of funds: Labor budget contributions	-	-	7,712,550	5,644,216
2004 Lease Revenue Bond (Parking) Paid by Parking Fund from unrestricted fees	803,658	803,658	1,960,116	1,960,116
2006 SPFA Lease Rev Bonds - (1999 ESB Refinance) Budgeted in Gen Fund with offsetting Transfer In from unrestricted Parking Fund fees	-	-	907,494	907,494
2003 COPS (Housing Projects) Obligation of Redevelopment Housing Fund Paid from Bond conversion through Sept 2012	-	-	990,170	
Projected General Fund backfill March 2013				326,372
2009 Lease Revenue Bonds (Public Facilities Fees)	1,207,919		2,415,838	
Paid from PFF funds; backfilled by General Fund		680,000		1,082,190
2007 Variable Rate Bonds (City Hall) at 4% Budgeted in 400 Main Fund, backfilled by Gen Fund	565,000	565,000	1,866,794	1,866,794
Department of Boating & Waterways Budgeted in Marina Fund; Backfilled by Gen Fund			719,677	719,677
Jarvis/MUD Settlement Paid by General Fund	-	-	1,112,998	1,112,998
Rev Bond Events Center-Arena Project 2004 Pledge of Waterfront Tax Increment	-	-	2,570,687	-
	2,576,577	**2,048,658**	**20,256,322**	**13,619,857**

We also need to assess other "burdensome contracts" to consider cost reductions on other more favorable terms to the City.

Additional legal costs - The balancing scenarios discussed here may include departures from contractual obligations that are likely to require significant legal defense. In the case of bond holders, agreements may require the City to cover not only its own bills but also creditor collection costs.

Summary of Options for Closing the Gap

This staff report has discussed a list of balancing alternatives for City Council consideration. It is important to remind the reader that if we are able to close the gap for Fiscal Year 12-13, we will still have no fund balance to cushion against further deterioration of finances and the deficits continue to grow in subsequent years. A sustainable solution must be developed now. It is recommended that Council immediately direct staff to develop plans for long term fiscal sustainability to be discussed with interested parties before a neutral evaluator.

Management Partners Financial Assessment

On December 13, 2011 your Council authorized Management Partners (MP) to conduct an independent assessment of the City's finances. Their final report is attached (Attachment C). They are opining that we are insolvent, depending on what we do now. Their report validates what you've been told by staff. They concur with staff that poor fiscal management in the past and the Great Recession have combined to put the City in an extremely weak fiscal condition. They believe the four year forecasts prepared by staff may even be a bit optimistic. Their financial findings confirm our sense of urgency and they affirm the recommendation that we proceed with the mediation process outlined in AB506 immediately.

Management Partners key observations include:

- The City faces significant risks and increasing costs that weaken its financial position and continue to erode its ability to provide fundamental services.
- The City can be considered insolvent from a service delivery and a budget perspective.
- The City is nearly cash insolvent and is likely to run out of unrestricted available fund balance before the end of the fiscal year unless immediate action is taken.
- The weakness of the City's financial condition as represented in documents prepared by the City management for FY 2011-12 and FY 2012-13 is not overly conservative.

They recommend cash be conserved to avoid insolvency and uncontrolled default, that we immediately prepare for AB506 proceedings to restructure our finances, and that we develop plans to lower serviced levels or alternate service delivery approaches to further reduce costs.

Recommended Commencement of AB 506 Mediation Process

The City is in an immediate and severe fiscal crisis and it is or likely will become unable to meet its financial obligations as and when those obligations are due or become due and owing. Absent some negotiated adjustments to the City's financial obligations, the City will be insolvent and will have no alternative than to seek bankruptcy protection under chapter 9 of the United States Bankruptcy Code. A recently adopted California law known as AB 506 (Government Code Sections 53760-53670.7) provides for a confidential neutral evaluation process as a precondition to or in lieu of (if successful) filing a chapter 9 petition. The goal of this process is to achieve a negotiated solution to the City's financial challenges. Immediate commencement of a confidential neutral evaluation process under AB 506 with the City's creditors is recommended to attempt in good faith to resolve the City's financial crisis. However our timing or room for maneuvering is very tight.

As previously mentioned, the AB506 confidential and independent mediation process is an intense and complex process that has not been tried by any agency in California. It will include a long list of creditors or interested parties that will try to forge a successful restructuring process in a compressed time frame. This will require a huge amount of coordination of staff and outside parties. This can only be done by contracting for additional resources. As a result, we propose a contract in the amount of $175,000 with Management Partners. Additional information is provided in the next section of this document.

Management Partners Project Management

The City Manager's Office recently approached Management Partners to request a proposal to provide project management and technical assistance support for the AB 506 mediation process (see Attachment D's Exhibit A). Management Partners has the resources to immediately begin the planning and project preparation including preparing a work plan for executing the AB 506 process. The work plan will identify the key steps, schedule and individuals or consultants who will have responsibility for each element of the work plan. Management Partners will also prepare a communications plan and assist in preparing materials to communicate the City's financial condition to interested parties in the AB 506 process. Management Partners will then identify the relevant interested parties or creditors and notify them of the City's intent to initiate the AB 506 mediation process. Management Partners' in depth knowledge of the City's finances will also allow them to quickly develop plans for long term fiscal sustainability to be discussed with creditors. This is known as the "ask" to interested parties, and consists of the relief being sought by the City with respect to existing debt and contractual obligations which are no longer consistent with fiscally sustainable operations. Management Partners will also work with the City Attorney and outside counsel to facilitate the selection of the neutral evaluator, create and coordinate a mediation schedule and assist the City in preparing materials for presentation and discussions in the mediation sessions. Finally, Management Partners will also assist the City in identifying any additional tasks that must be completed following the mediation process.

To accomplish these tasks, Management Partners has proposed the dedication of outstanding resources with exceptional experience in project management and municipal finance, including their Regional Vice President and a Partner of the firm. Management Partners will coordinate the efforts of their team along with City staff, legal counsel and other experts to assist the City through the AB 506 process. Management Partners will serve as the City's project manager for the AB 506 process, doing what is necessary to move what is sure to be a new and challenging process forward to a satisfactory conclusion.

Staff recommends that the City avoid delay in initiating the AB 506 mediation process by executing a new contract with Management Partners for project management and technical assistance in the AB 506 mediation process in the amount of $175,000 (Attachment D).

Findings

Stockton Municipal Code Section 3.68.070 provides an exception to the competitive bidding process in cases where the City Council has approved findings that support and justify the purchase.

The following findings support the exception as follows:

- There is an immediate need to initiate the AB 506 mediation and neutral evaluation process.
- The fiscal sustainability of the City is the top priority of the City Council.
- The City does not have the resources or staff time to support the AB 506 process while managing the City.
- There would be a significant delay in engaging in a formal Request for Proposals (RFP) process for AB 506 support services.
- Management Partners is uniquely familiar with the financial condition of the City based on their work conducting the financial condition assessment.
- Management Partners has working knowledge of the City and its staff that will expedite the process.
- Management Partners has the expertise and staff available to begin the preparation for the AB 506 process immediately.
- Management Partners has demonstrated the expertise and capability to manage time sensitive, high profile projects with outstanding performance and attention to detail.
- The proposed fees are reasonable and comparable to the costs for similar project management engagements.

Suspension of Debt Service Payments

As a necessity, to preserve cash liquidity in the general fund for the remainder of Fiscal Year 2011-12, we are recommending that the Council authorize suspension of payments on certain general fund lease obligations (for detail see page 29) in the amount of approximately $2,048,658. Failing to make these payments will constitute an Event of Default on the part of the City, although all of the obligations have cash reserve funds or surety policies so that investors in the City's obligations will not immediately suffer a missed payment. However, this is a serious step and will very likely result in the withdrawal or downgrade of the ratings on these publicly traded obligations and will negatively impact their market value. A portion of the 2009 Lease Revenue Bonds (Public Facilities Fees) will be paid with Public Facilities Fees (PFF). Where fee revenue is insufficient, unrestricted funds will not be used to backfill the remaining amount of the payment. As shown on page 29, the total payment on this issue is expected to be $1,207,919. The shortfall of PFF revenue will create a default of approximately $680,000 of this payment. With respect to the variable rate Series 2007A and Series 2007B Bonds issued to finance the acquisition of 400 E. Main St., the failure to make payment on March 1, 2012 could result in those bonds being tendered to Dexia, the liquidity provider, which would result in a significant increase in the interest rate on those bonds; however, holders of the bonds would be paid in full for their tendered bonds, and Assured Guaranty, the bond insurer, would make payment to the holders (or Dexia to the extent they purchase the bonds).

The providers of bond insurance for the City's general fund obligations (National Public Finance Guarantee, Assured Guaranty and Ambac), and the trustee (Wells Fargo), will be invited to participate in the AB 506 confidential neutral evaluation process described above. It is likely that they will be asked to make significant concessions as a part of any negotiated solution to the City's financial crises in the AB 506 process.

Ratification of Leave Payoff Suspension

On May 17, 2011 the City Council adopted Resolution #11-0114 declaring that the City of Stockton was experiencing an ongoing fiscal emergency. That declaration is still in effect and continues today. That emergency declaration resolution gave the City Manager authority to take further emergency actions to preserve the City's ability to provide essential service to the citizens of Stockton to safeguard public health and safety.

Effective February 16, 2012, under this authority the City Manager took the following actions to stabilize and preserve the finances and available cash of the City in order to continue to provide services. It is recommended that your Council adopt findings regarding the suspension of vacation sell back and leave pay off. These findings are below.

1. On May 17, 2011, this Council approved Resolution #11-0114, declaring a state of emergency based on fiscal circumstances and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget including any change to existing labor agreements determined necessary by the City Manager, limited to the duration of the fiscal emergency. The financial information provided in this report supports the continuation of the state of emergency. The measures implemented under this emergency are necessary to generate the cost savings needed to maintain solvency of the General Fund during fiscal year 2011-12.

2. The City is dangerously low on available cash resources necessary for current operations, including the operation of the City's police and fire departments, which are funded almost entirely from unrestricted general fund revenues.

3. The ability of the City to continue funding basic public safety services during the pendency of this condition of fiscal emergency is of paramount importance to the citizens of Stockton.

4. City employees have, through valued and continuous service, accumulated leave balances in the form of both sick leave and vacation and these balances represent a significant unfunded general fund obligation.

5. It is anticipated that due to the current financial position of the City certain employees, some with very large leave balances that they will seek to convert to cash upon separation, will chose to immediately separate from City service and that these employee separations will cause extreme pressure on the City's greatly depleted unrestricted cash resources.

6. The City currently does not have sufficient unrestricted cash resources available to both maintain necessary levels of public safety related services and immediately pay separating employees for 100% of its liability for accumulated leave balances without an unacceptable risk of depleting available cash resources to the point that public safety services may be put in jeopardy.

7. While any risk to the City's ongoing ability to provide necessary public safety services to it's citizens is a grave concern, the current level of crime in Stockton makes this risk one that this Council is unwilling to incur. To place at greater risk the safety of the community in this time of greatest need would be an unconscionable dereliction of this Council's most basic obligation to it's citizens.

8. It is necessary at this time to immediately, but temporarily, delay the further payment of all leave balances to separating employees until such time as there are sufficient unrestricted cash resources available to the City to allow for the payment of such leave balances while ensuring the City will have adequate resources remaining to fund basic services.

Along with these findings, the City manager is also directed to develop alternatives to this complete suspension of leave buyouts and report back to the City Council as soon as practical. The alternative should strike a balance between our ability to pay and what is rightfully owed to our employees.

It is further recommended that your Council ratify these emergency actions by the City Manager. These actions proposed for ratification are:

1. Annual Vacation Sell back or Cash Payoffs of Vacation. Effective the pay period starting February 16, 2012, the City Manager has ordered that whatever annual vacation sell backs or pay offs as provided for in various Memorandums of Understanding/resolutions are hereby temporarily suspended. This applies to all bargaining units and employees, including those units where the annual sellbacks or cash outs have already been suspended during the furloughs.

2. Vacation Hours paid at separation. Effective the pay period starting February 16, 2012, the City Manager has ordered that all pay offs of unused vacation hours that would otherwise be made to an employee upon separation from City employment, and as provided for in various Memorandums of Understanding/resolutions, are hereby temporarily suspended. This applies to all bargaining units and all employees. This suspension of pay offs of unused vacation shall also apply to Fire and Fire Management Longevity Vacation. This provision shall not apply to employees who are involuntarily separated from City Service.

3. Sick Leave Hours paid at separation. Effective the pay period starting February 16, 2012, the City Manager has ordered that all payments of unused sick leave that would otherwise be made to an employee upon separation from city employment for any reason, and as provided for in various Memorandums of Understanding/resolutions, are hereby temporarily suspended. This applies to all bargaining units and all employees.

4. Holidays leave hours paid at separation. Effective the pay period starting February 16, 2012, the City Manager has ordered that all payments of unused holiday leave hours that would otherwise be made to an employee upon separation from city employment for any reason, and as provided for in various Memorandums of Understanding/resolutions, are hereby temporarily suspended. This provision shall not apply to employees who are involuntarily separated from City Service.

5. Other leave balance pay offs at separation including payments of unused compensatory time in lieu of overtime or furlough hour banks shall not be impacted by these suspensions.

The City Manager and staff will make it a top priority to provide options to this suspension, that provide a better balance between the 100% suspension, versus the financial exposure of potentially large payoffs.

Investigation

Over the years the City has relied on the services of various professionals in the areas of finance and fiscal management. Through the hard work that staff has undertaken in the near term it has become apparent that the true financial condition of the City was not communicated in certain prior fiscal years to the Council at a time when measures might have been available to avoid, at least in some measure, the current difficulties now being confronted.

It is also now apparent that there may have existed in certain past fiscal years non-standard financial practices engaged in, either intentionally or negligently, by City administrators and/or contractors that were not disclosed to the Council and that have also contributed to the City's current financial situation.

Given the grave consequences now being faced by the City, it is important that staff engage in an investigation aimed at determining if the City has the ability at this time to pursue remedies against persons or entities that may have contributed to the City's current financial situation by failing, either by their intentional or negligent actions, to properly serve the City.

It is staff's intention, if so directed by your Council, to engage in an investigation and return to Council (in open or closed session as appropriate) for direction regarding any further actions that may be appropriate.

FINANCIAL SUMMARY

A General Fund action plan has been identified to offset $15 million in 2010-11 and 2011-12 losses that have materialized since the previous budget updates. The proposed plan and budget amendment addresses known and quantifiable impacts to the budget. As discussed above, a series of additional and significant contingent risks to the General Fund remain outstanding.

The following are prior period and current year transfers and appropriations that must be made in order to balance the General Fund at June 30, 2010, June 30, 2011 and to maintain a balanced budget in Fiscal Year 2011-12. The amounts below are approximate unaudited available fund balances; actual available funds will be transferred.

FISCAL CONDITION UPDATE FOR FISCAL YEARS 2010-11, 2011-12 AND 2012-13

At June 30, 2011 authorize the following appropriations and transfers of unappropriated fund balance:

	Account	Amount	Page Reference
Transfer To:			
Redevelopment Waterfront #343	330-0000-492	3,876,000	pg. 9
Recreation Fund #044	044-0000-492	20,000	pg. 10
HUD Grant Funds	052-0000-492	88,000	pg. 10
Development Services Fund #048	048-0000-492	526,000	pg. 9
City Debt Service Fund #201	201-0000-492	6,000	pg. 10
	Total	4,516,000	
Transfer From:			
General Fund	010-0000-992	(4,516,000)	
Transfer From:			
Library Fund	041-0000-992	(721,000)	pg. 18
400 E. Main Operating	085-0000-992	(590,000)	pg. 18
Entertainment Venues	086-0000-992	(570,000)	pg. 18
General Capital Fund	301-0000-992	(798,000)	pg. 19
ESB & 400 Main Capital	305-0000-992	(1,930,000)	pg. 19
Fleet ISF	501-0000-992	(2,286,000)	pg. 19
Retirement ISF	561-0000-992	(3,731,000)	pg. 20
Arts Endowment Trust	613-0000-992	(1,300,000)	pg. 20
Total		(11,926,000)	
Transfer To:			
General Fund	010-0000-492	11,926,000	
Increase 2010-11 Expenditure Appropriation:			
General Fund #010 - Payroll Accrual		650,000	pg. 9
Measure W Fund #081		1,232,000	pg. 18

February 28, 2012

FISCAL CONDITION UPDATE FOR FISCAL YEARS 2010-11, 2011-12 AND 2012-13
(Page 38 of 38)

Amend the 2011-12 General Fund Budget as follows:

	Oct. 18, 2011 Amended Budget	Increase/ (Decrease)	**Feb. 28, 2012** Amended Budget	Page Reference
Revenues	158,828,313	(825,799)	158,002,514	pg. 12
			-	
Expenditures				
Police	83,172,036	(223,500)	82,948,536	pg. 13
Fire	39,812,835	47,000	39,859,835	pg. 14
Redevelopment	1,000,000	2,100,000	3,100,000	pg. 14
City Manager	735,926	1,800	737,726	pg. 14
City Auditor	405,801	100,000	505,801	pg. 14
Admin Services	3,201,627	1,500	3,203,127	pg. 14
Human Resources	1,272,332	1,700	1,274,032	pg. 14
Tax Collection and Election	2,310,000	310,000	2,620,000	pg. 14
Other Admin / PIO	1,363,178	(368,370)	994,808	pg. 13, 14
Labor Litigation/Negotiation/AB506	1,500,000	3,500,000	5,000,000	pg. 15
Debt Service	2,137,468	2,357,000	4,494,468	pg. 13, 14
March to June 2012 Debt	-	(1,245,000)	(1,245,000)	pg. 20
Transfer In Parking Debt	-	(804,000)	(804,000)	pg. 20
Subtotal, Expenditures	158,828,313	5,778,130	164,606,443	

The financial information provided in this report supports the continuance of the state of emergency adopted by City Council Resolution #11-0114 on May 17, 2011. The measures implemented under this emergency are necessary to generate the cost savings needed to maintain a balanced budget and maintain solvency of the General Fund through the end of fiscal year 2011-12. The City continues to closely monitor its 2011-12 budget and will report to you as conditions change.

Respectfully submitted,

Laurie Montes

for BOB DEIS
CITY MANAGER

Attachment A: Detailed Fiscal Year 2012-13 Forecast
Attachment B: Service Level Reductions
Attachment C: Management Partners Financial Assessment Report
Attachment D: Consultant Services Contract

General Fund Projection

	2008-09	2011-12 Current Projection at 1/31/12	% vs PY	2012-13 Baseline #1 Optimistic	2012-13 Change from 2011-12	% vs PY	2012-13 Baseline #2 Pessimistic	2012-13 Change from Baseline #1	% vs PY
Beginning Available Balance	9,628,221	-		-	-		-	-	
Revenues									
Property Tax	55,499,968	44,512,970	-5%	42,319,722	(2,193,249)	-5%	41,842,191	(477,531)	-6%
Sales Tax	37,344,891	36,180,001	4%	37,965,021	1,785,020	5%	37,932,319	(32,702)	5%
Utility Users Tax	30,853,668	31,236,736		31,386,600	149,864		31,008,000	(378,600)	
Other General Revenues	46,524,091	33,379,991		32,153,247	(1,226,744)		31,260,244	(893,003)	
Program Revenues	32,878,911	12,692,816		11,084,977	(1,607,839)		10,719,095	(365,882)	
	203,101,529	158,002,514		154,909,567	(3,092,948)	-2%	152,761,848	(2,147,718)	-3%
Expenditures									
Salaries and Benefits									
Salaries - Safety	44,727,294	37,232,821		37,677,139	444,318	1%	38,806,558	1,129,419	3%
Salaries - Non-Safety	22,893,333	16,955,006		17,157,338	202,332	1%	18,514,798	1,357,460	8%
Salaries-Part time, Temporary	1,351,167	605,194		605,194	-	0%	605,194	-	0%
Pension - CalPERS	26,313,359	16,075,185		*16,806,002*	730,817	5%	*21,148,500*	4,342,498	26%
Pension - Bonds	-	5,615,200		5,644,217	29,017	1%	5,644,217	-	0%
Health, Dental, Vision - Employee	19,034,883	9,403,915		8,982,969	(420,946)	-4%	11,853,249	2,870,280	32%
Health - Retirees	-	*8,010,742*		*9,051,809*	1,041,066	13%	*9,051,809*	-	0%
Workers Compensation	3,120,880	5,660,652		5,627,821	(32,831)	-1%	5,930,754	302,933	5%
Other Pay and Benefits	11,544,889	7,091,431		*6,605,792*	(485,639)	-7%	*9,704,772*	3,098,980	47%
Overtime & Standby/Callback	8,497,730	6,842,859		6,842,859	-	0%	6,842,859	-	0%
Compensated Absences	3,470,937	4,347,003		4,277,674	(69,329)	-2%	4,881,682	604,007	14%
Salaries - Safety - Expiring Grants	-	-		2,954,850	2,954,850		3,175,470	220,620	7%
Reductions/reorganizations	-	(2,758,000)		(648,000)	2,110,000	-77%	(648,000)	-	0%
	140,954,472	115,082,008		121,585,664	6,503,656	6%	135,511,861	13,926,198	11%
Services and Supplies									
Internal Services-Equip	12,302,619	12,182,833		*13,299,313*	1,116,480		*13,299,313*	-	
General Liability Insurance	2,053,914	2,283,248		*2,947,771*	664,523		*3,142,284*	194,513	
Utilities	4,388,811	2,437,740		2,486,495	48,755		2,486,495	-	
Maintenance & Repair Services	1,599,774	2,444,155		2,444,155	-		2,480,817	36,662	
Labor/Legal Services	2,350,467	5,122,803		2,122,803	(3,000,000)		2,222,803	100,000	
General Expenses	7,295,143	5,871,867		6,113,390	241,523		6,237,114	123,724	
Tax Collection & Election	3,140,830	2,804,000		2,819,151	15,151		2,861,828	42,677	
	33,131,557	33,146,646		32,233,077	(913,569)		32,730,653	497,576	
Other Program Support									
Library, Recreation, and Golf Funds	12,254,613	6,735,022		7,269,349	534,327		8,335,734	1,066,385	
Entertainment Venues Fund	-	2,441,299		2,232,732	(208,567)		2,358,188	125,456	
Other Program Support	119,355	950,000		625,000	(325,000)		625,000	-	
Redevelopment	-	3,100,000		3,100,000	-		3,100,000	-	
Debt - Other	16,984,925	4,350,307		6,071,285	1,720,978		6,283,285	212,000	
	29,358,893	17,576,628		19,298,365	1,721,738		20,702,207	1,403,841	
Contingency	-	850,000		2,000,000	1,150,000		2,000,000	-	
Total Expenditures	203,444,923	166,655,282		175,117,106	8,461,825		190,944,721	15,827,615	
Reserves	(677,780)	8,652,768			(8,652,768)				
Net Annual Activity	(1,021,173)	-		(20,207,540)	(20,207,540)		(38,182,873)	(17,975,333)	
% of Expenditures		0%		-12%			-20%		
Ending Available Balance	8,607,048	-		(20,207,540)	(20,207,540)		(38,182,873)	(17,975,333)	

ATTACHMENT B

2/8/2012

General Fund
Department Reduction Summary
2012-2013

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Programs										
Police										
Eliminate all Community Service Officer positions. Reduce revenue from $1.2 mil to $600,000. Net reduction is $2,012,133	All current CSO and Sr. CSO activities would be reassigned to Police Officers. VIPS being considered for parking tickets.	2,012,133	2,012,133	2,012,133	30		30		30	
Reduce the number of Police Records staffing for filled and vacant civilian positions	This overall reduction in the Records Division would increase the amount of time related to all functions of the Records Division. This would include access to documented reports and provision of reports to the public and government agencies, including the Court system.	220,573	220,573	220,573	3		3		3	
Reduced staffing in the Telecommunications Division. 3 Telecommunications Specialist	Decrease level of Telecommunications support for Police Dispatch. Longer wait for 911 calls.	296,402	296,402	296,402	3		3		3	
Reduced civilian support staffing in the Traffic Division	Clerical duties would be assigned to Police Officers as time permits. This would greatly reduce the level of customer service related to towed vehicles and citation disputes.	167,483	167,483	167,483	2		2		2	
Eliminate Investigations Division Police Records Assistant	Case work for CSO's & PRA would be absorbed by Police Officers.	75,216	75,216	75,216	1		1		1	
Eliminate Special Investigations Records Assistant vacancy	Nominal effect on current Special Investigations operations	74,544	74,544	74,544	1		1		1	
Reduce staffing in Animal Services & Animal Control	Reduced hours at Shelter and reduced coverage for animal control	371,077	371,077	371,077	5		5		5	
Eliminate Graffiti Abatement Program salary and costs	Dramatic increase in graffiti throughout Stockton	577,190	577,190	577,190	5		5		5	
Sworn salary savings		448,484	448,484	448,484						

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Police (Continued)										
Eliminate 9 Police Officers, 2 Sergeant's and 1 Lieutenant from the Traffic Division	No separate Traffic Section. Only 8 Police Motor Officers assigned to regular Patrol shifts to handle essential traffic support and manage fatal traffic accidents		1,519,573	1,519,573			12		12	
Eliminate 18 Special Investigation Section (SIS) Police Officer Positions, 2 SIS Sergeant's & 1 SIS Lieutenant. Transfer remaining 2Sergeant's and 6 Police Officer Investigators into the Investigations Section. Restructure Investigations Section.	Remaining 2 GSET Sgts reassigned; only 6 Police Officers remain in Special Investigations. Either GSET or Task Force operations eliminated		2,825,022	2,825,022			21		21	
Decline the 17 positions funded by the 2011 COPS CHP Grant	Few Police Officers to handle calls for service.		100,000	100,000						
Eliminate 26 Police Officer Positions, 4 Sergeants & 1 Lieutenants from Patrol duties. Restructure entire Patrol and Investigative Operations	Reduction in staff available to respond to 911 calls.			4,141,608					31	
	Sub Total	**4,243,102**	**8,687,697**	**12,829,305**	**50**		**83**		**114**	
Fire										
Close Engine No. 11	Increased response time	1,500,697	1,500,697	1,500,697	9		9		9	
Reduce Truck No. 3 by 1 Fire Fighter (1 for each shift = 3)	Increased fire loss, reduced staff safety, increased incident loss, morbidity and mortality	450,445	450,445	450,445	3		3		3	
Fire District Contracts - Revenue reduction estimate		(397,873)	(586,984)	(776,095)						
Reduce Truck No. 2 by 1 Fire Fighter (1 for each shift = 3)	Increased fire loss, reduced staff safety, increased incident loss, morbidity and mortality	450,445	450,445	450,445	3		3		3	
Close Engine No. 6	Increased response time		1,500,697	1,500,697			9		9	
Reduce Truck No. 7 by 1 Fire Fighter (1 for each shift = 3)	Reduced staff safety		450,445	450,445			3		3	

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Fire (Continued)										
Reduce Truck No. 7 by 1 Fire Fighter (1 for each shift = 1)	Increased fire loss, reduced staff safety, increased incident loss, morbidity and mortality		150,148	150,148			1		1	
Savings from other expenditures			65,390	65,390						
Close Engine No. 14	Increased response time			1,500,697					9	
Close Truck No. 3	Increased fire loss and reduce staff safety			1,500,697					9	
Keep 1 Fire Fighter in Truck No. 2 (Reduce by 1 shift)	Increased incident loss and increased morbidity and mortality			(150,148)					-1	
Keep 4 Fire Fighters in Truck No. 7				(665,983)					-4	
	Sub Total	**2,003,714**	**3,981,284**	**5,977,435**	**15**		**28**		**41**	
Public Works										
Reduce contract budget for Trees	Reduced ability to respond to emergencies	100,000	100,000	100,000						
Reduce contract budget for Parks	Delayed repairs to playgrounds and irrigation systems	135,000	135,000	135,000						
Reduce contract budget for HVAC	Probable service delays as more work shifted to staff	60,000	60,000	60,000						
Shift portion of Street Trees non-payroll costs to Gas Tax	Less Gas Tax for Street maintenance	60,000	60,000	60,000						
Shift portion of Pixie Woods maintenance to Pixie Woods Board	Depends on ability of Board to make alternative arrangements		110,000	110,000			1		1	
Eliminate vacant but funded Parks Inspector	Maintains reduced Parks oversight		100,000	100,000			1		1	
Shift additional Street Trees non-payroll costs to Gas Tax for total shift equaling 50%	Less Gas Tax for Street maintenance		65,000	65,000						
Shift Facilities Electrician to Streets and Gas Tax	Probable delays for Facilities electrical issues; improved Traffic electrical		85,000	85,000						
Reduce Parks maintenance to minimum levels	Higher grass and more trash			185,000						
Reduce Parks water usage by 50%	Brown grass and stressed landscaping			165,000						
	Sub Total	**355,000**	**715,000**	**1,065,000**			**2**		**2**	

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Economic Development										
Elimination of Deputy Economic Development Director position and redistribution of staff allocations.	Reduced resources for business outreach, attraction, and retention	24,260	48,520	72,780	1		1		1	
	Sub Total	**24,260**	**48,520**	**72,780**	**1**		**1**		**1**	
Peacekeeper										
Eliminate Phones budget	Staff will not have City Hall numbers; will use cell phones	8,596	8,596	8,596						
Reduce Consultant budget	Reduce services for clients: tattoo removal, conflict management, counseling classes	622								
Eliminate Printing budget	No outreach materials for community fairs, etc.	2,000	2,000	1,657						
Eliminate Travel budget	No training and travel for award programs or training staff	1,200	2,000							
Eliminate Training budget	No training and travel for award programs or training staff	2,000	1,200							
Eliminate Equipment budget	No purchase of radios, scanners, etc	1,000	1,000							
Eliminate Supplies budget	No purchases for the fiscal year	1,000	1,000							
Reduce Full Time Position to Part Time	Reduce current caseload by 200; turn away additional 200 referrals		14,000				1		1	
Reduce Pooled Vehicle budget	Reduce car rental for field trips- fewer field trips		1,000							
Reduce Fuel budget	Reduce fuel budget to match reduction of YOW hours in car (from full time to part time)		2,039							
Eliminate one Youth Outreach Worker Position	Reduce the current caseload by 400, turn away an additional 400 referrals			39,000					1	
	Sub Total	**16,418**	**32,835**	**49,253**			**1**		**2**	
Arts Commission										
Supplies reduced		1,837	3,674	5,511						
	Sub Total	**1,837**	**3,674**	**5,511**						

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Programs Support for Other Funds										
Community Services - Library										
Hold Librarian II Vacant	Delays completion of project to transition to 100% "shelf-ready" new materials. No donations/local history added to catalog and eliminates 5 hours per week of public service desk support lost	53,934	53,934	53,934	1		1		1	
Eliminate Library Asst II (PPJ)	20% of Chavez Library Reference Desk staffing lost (Chavez averages 48,000 reference interactions per year). Longer customer wait times for reference service, Collection maintenance work delayed – customers may not find desired materials on the shelves	85,228	85,228	85,228	1		1		1	
Parity of all late fees		47,000	47,000	47,000						
Reduce PT staff funding by 21%	Less PT and FT staff leads to longer lines at customer service desks, reduced capacity to fill leave time/vacancies, and less skilled tasks performed by higher-paid employees	11,000	11,000	11,000		1		1		1
Reduce Tech Services Supplies by 30%	Reduced capacity to recover books with damaged covers and to replace damaged media cases (audiobooks/music, DVDs) so that serviceable materials can still circulate and virtually eliminates capacity to accept not-shelf-ready donations from customers	4,000	4,000	4,000						

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Community Services - Library (Continued)										
Eliminate Librarian I (PS)	25% of Chavez Library Reference Desk staffing lost beyond that lost at 5% reduction target (total 45% lost), troke Library Reference Desk staffing reduced by 25% and Significantly increased customer wait times at both Chavez and Troke libraries		93,736	93,736			1		1	
Eliminate Librarian I (AC)			98,054	98,054			1		1	
Reduce City branch landscaping by 50%			10,000	10,000						
Eliminate Circulation Asst (LT)	Eliminate Library Assistant from Chavez Library and necessitates operating hours reduction of 31% (from 36 to 25 hours weekly maintains 5-day/week service)			62,812					1	
Eliminate Library Aide (SN)	Eliminate Circulation Assistant and Library Aide from Troke Library. Necessitates operating hours reduction of 31% (from 36 to 25 hours weekly maintains 5-day/week service)			61,771					1	
Eliminate Library Asst II (KBT)	Less skilled tasks performed by higher-paid employees			76,934					1	
	Sub Total	**201,162**	**402,952**	**604,469**	**2**	**1**	**4**	**1**	**7**	**1**

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Community Services - Recreation										
Fewer Civic supplies/repairs & maintenance after remodel	No impacts	20,000	20,000	20,000						
Reduce utilities in Civic Auditorium	No impacts	10,000	10,000	10,000						
Reduce gas utility	Efficiency from upgrade and no impact	80,000	80,000	80,000						
Reduce PT Comm Ctrs & Sports	Contracted field maintenance and no decrease in service	20,000	20,000	20,000		3		3		
Sr AA to PM savings	No impacts	11,500	11,500	11,500						
Rec Asst II separation not filled	Transactions performed by higher paid staff, less time for contract monitoring, program mgmt/development, slightly slower customer service at centers		79,005	79,005			1		1	
Rec Asst II remains vacant			79,146	79,146			1		1	
Layoff Office Asst II	Admin transactions, scheduling performed by higher paid staff, less time for committees, commission participation and support. Full time staff will assist in after school program, no impacts to after school, but other community center customers may incur slower service			61,708					1	
Recreation staff pick up Public Art duties of lay off OA funded by Public Art Fund				11,287						
After school program reduction				48,443						5
	Sub Total	**141,500**	**299,651**	**421,089**		**3**	**2**	**3**	**3**	**5**

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Entertainment Venues										
Reduction of maintenance, repairs, and supplies	Barebones maintenance, repair, contracted services budget. Deferred maintenance issues may create risks to facilities	122,065								
Reduction of maintenance, repairs, and supplies; and reduction of any further line items	Barebones maintenance, repair, contracted services budget. Deferred maintenance issues may create risks to facilities. Deferral of critical maintenance items may create risks. Staff will need to meet and confer with SMG to determine if facilities can safely operate with lower budget.		244,130							
Closure of Baseball Stadium	Further reduction will create risk. Staff will need to meet and confer with SMG. It is estimated that this level or above in service reductions will require the Baseball Stadium closure. Stadium generate lowest level of revenue of all four facilities.			366,195						
	Sub Total	**122,065**	**244,130**	**366,195**						

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Administration										
Non-Departmental, City Manager and City Council	Inability to launch Social Media efforts. Significant impacts to Website, Ask Stockton, and media relations support. Severe impacts to the ability to be responsive to Public Disclosure Requests. Impacts the already strained ability to support City Executives.	131,045	131,045	131,045	2		2		2	
	Inability to broadcast Council Meetings on Channel 97. Severe impacts to Channel 97 programming and maintenance. Severe impacts to media relations and community access to City business.		131,045	131,045			2		2	
	Reduce citizen support, public outreach, and strategic planning.			131,045					1	
	Sub Total	**131,045**	**262,090**	**393,135**	**2**		**4**	**-**	**5**	**-**
Administrative Services										
Reduce 3 Administrative Services Positions	Reduce administrative support to the City wide programs and increase risks to the accounting and financial activities	160,081	160,081	160,081	3		3		3	
Reduce 3 Administrative Support Positions	Reduce administrative support to the City wide programs. Increase risks to the accounting and financial activities, delay in accounting transactions' reconciliation, and delay in payroll and disbursement processing		160,081	160,081			3		3	

251.48

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Administration (Continued)										
Reduce 3 Administrative Support Positions	Reduce administrative support to the City wide programs. Increase risks to the accounting and financial activities, delay in accounting transactions' reconciliation, and delay in payroll and disbursement processing			160,081					3	
	Sub Total	**160,081**	**320,162**	**480,243**	**3**		**6**	**-**	**9**	**-**
Human Resources										
Reduction in Training Budget	Eliminate a portion of City-Wide training program which provides the courses for the various certificate programs. The City has class specs requiring these various certifications, there would be meet and confer obligations over elimination/suspension of the programs and corresponding job requirements. Contrary to Council strategic initiative on increasing organizational capacity.	63,617								
Reduction in Training Budget	Eliminate an additional amount of funding for City-Wide training program which provides the courses for the various certificate programs. The City has class specs requiring these various certifications, there would be meet and confer obligations over elimination/suspension of the programs and corresponding job requirements. Contrary to Council strategic initiative on increasing organizational capacity.		38,452							

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Administration (Continued)										
Eliminate HR Specialist	Eliminate last remaining support personnel to Civil Service Commission and the City's Air Quality liaison. The majority of CSC agenda preparation and other support activities would fall to analyst staff, significantly reducing their capacity to perform analytical level work.		88,781				1		1	
Reduction in Training Budget	Eliminate the remaining funding for City-Wide training program which provides the courses for the various certificate programs. The City has class specs requiring these various certifications, there would be meet and confer obligations over elimination/suspension of the programs and corresponding job requirements. This would also eliminate all training for HR staff, significantly impairing ability to develop employee/labor relations expertise in house. Contrary to multiple City Council strategic initiatives.			80,000						
Eliminate HR Specialist	Eliminate last remaining support personnel to Civil Service Commission and the City's Air Quality liaison. The majority of CSC agenda preparation and other support activities would fall to analyst staff, significantly reducing their capacity to perform analytical level work.			88,781			1		1	

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Administration (Continued)										
Eliminate HR Assistant II	Eliminate all reception and mail services. Potential reduction in hours lobby would be open to public. Reduces customer service, incoming calls would potentially receive voicemail. Mail services and other low level clerical tasks would be reassigned to remaining higher level employees, thereby reducing efficiency.			22,679					1	
	Sub Total	**63,617**	**127,233**	**191,460**			**2**		**3**	
City Clerk										
Eliminate Office Specialist Position	Statement of Economic Interest tracking; Tracking of Ethics Training; Document Research; Customer Service; meeting support; bid openings; Agenda prep & distribution; staff training & development; filing; records mgmt.	88,281	85,633	85,633	1		1		1	
Reclass Supervising Deputy City Clerk to Senior Deputy City Clerk		7,000								
Reduce Senior Deputy City Clerk to 3/4 hrs.	High possibility of non-compliance with State mandates re: Legal Noticing, Public Hearings, Boards & Commissions recruitment and roster maintenance eliminated/meeting support, i.e. preparation of meeting record, filing of documents, meeting action followup decreased by 45%/processing of official documents (mandated), i.e. recordation of documents will be missed			23,593						
	Sub Total	**95,281**	**85,633**	**109,226**	**1**		**1**		**1**	

Service Reductions	Service Level Impacts	Savings @5%	Savings @10%	Savings @15%	FTE's Eliminate @5%	Part-time Eliminate @5%	FTE's Eliminate @10%	Part-time Eliminate @10%	FTE's Eliminate @15%	Part-time Eliminate @15%
Administration (Continued)										
City Attorney										
Loss of one advisory attorney	Serious delay in delivery of advisory advice/projects due to lack of staff and increased cost for consultation with outside counsel.	45,656	91,312	136,967	1		1		1	
	Sub Total	**45,656**	**91,312**	**136,967**	**1**		**1**		**1**	
City Auditor										
Vacancy Savings (3/4 position - 1 FTE)		20,290	20,290	20,290						
Reduce staff by 1 full time position			64,800	64,800	1		1		1	
Increase Contractual Services			(24,220)	(24,220)						
Vacancy savings reversed			(20,290)	(20,290)						
Reduce Contractual Services				20,290						
	Sub Total	**20,290**	**40,580**	**60,870**	**1**		**1**		**1**	
	Grand Total	**7,625,028**	**15,342,753**	**22,762,938**	**76**	**4**	**136**	**4**	**190**	**6**