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UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO DIVISION

In re:	Case No. 2012-32118
CITY OF STOCKTON, CALIFORNIA,	D.C. No. OHS-1
Debtor.	Chapter 9
	EXHIBITS S THROUGH V 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 S

LexisNexis®

Bond Trustee Gets Three Parking Garages in Stockton

The Bond Buyer

April 16, 2012 Monday

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Body

SAN FRANCISCO - A judge has awarded Wells Fargo N.A. three parking garages leased by the financially troubled city of Stockton, Calif. that are pledged as assets backing more than $30 million of defaulted bonds.

San Joaquin Superior Court Judge Roger Ross ruled Thursday against the city and gave possession of the garages to the bank, which is the trustee for the bondholders, after the city failed to make a $779,000 debt service payment on March 1.

Stockton spokeswoman Connie Cochran said the city will now sit down with Wells Fargo to work out terms and conditions over operation of the garages.

"The city has obtained assurance the garages will not close," Cochran said in an emailed statement. "These assurances and our ability to work through the details with Wells Fargo are particularly important in light of how essential these resources are to downtown Stockton and special events."

As a result of the ruling, the parking garage revenues will now be used to pay past due rents owed to bond holders, Wells Fargo said.

"The city made the unilateral decision to stop paying rent on the parking facilities, and the court ruled that it had no legal justification to do so," Wells Fargo spokeswoman Elise Wilkinson said in an email.

The ruling is just the latest financial problem for the city of nearly 300,000 in California's Central Valley, which has been crushed by the housing bust.

The parking-garage bond default resulted from the City Council's vote last month to suspended payments on three series of bonds, including the garage bonds, totaling $110 million in par value through June 30, the end of the fiscal year.

The council also voted on Feb. 28 to begin a confidential mediation process with creditors under terms of a new state law designed to give financially stressed local governments a chance at staying out of bankruptcy.

As trustee, Wells Fargo filed the complaint in court at the behest of National Public Finance Guarantee Corp., the insurer of the bonds.

"We are pleased by the court's decision, which recognizes that the rights and remedies granted to bondholders by the city in the financing documents are enforceable, notwithstanding the AB 506 mediation proceeding," said Kevin Brown, a spokesman for National in a statement.

Brown said National has yet to receive a claim from bondholders because reserves have been sufficient so far to cover debt service."

Wells Fargo served the city with a notice on March 1 requiring it to pay delinquent rents in three days or vacate and deliver possession of the property to the trustee.

Bond Trustee Gets Three Parking Garages in Stockton

The Stockton Public Financing Authority sold $32.8 million in lease revenue bonds in 2004 to fund construction of parking garages and other capital improvements. The bond indenture said the lease payments by Stockton support the debt and the property is security.

The city owed $1.9 million in interest and principal payments for fiscal 2012 ending in June and roughly the same amount next fiscal year, according to the official statement for the bonds.

Stockton said it so far has stopped payments until the end of June on the 2004 parking bonds, and on $35 million of 2009 lease revenue bonds issued by the financing authority.

The city also defaulted on $40 million of two series of 2007 variable-rate lease revenue bonds issued by the financing authority for property at 400 East Main Street, which had been set for the future city hall. The troubled European bank, Dexia provided liquidity on the bonds.

Assured Guaranty Corp. insured the 2007 bonds and the 2009 bonds were not insured, according to the official statements.

The city said in its disclosure to holders of all general-fund backed bonds, "no assurance can be given" that the city can make payments due for debt service in fiscal 2013 or later.

Overall, Stockton, its redevelopment agency, and its financing authority have issued $327 million in debt through seven series of general-fund-supported lease revenue or pension obligation bonds.

National Public Finance Guarantee has said it has $224 million of insured exposure to Stockton's debt, $89 million of which is backed by its general fund.

Assured said it is exposed to the tune of more than $150 million net par. Ambac insures $13 million of Stockton bonds, according to city documents.

Stockton had more than $702 million of bonds outstanding as of June 30, 2010, including city and RDA bonds and debt issued for restricted enterprise funds such as water, sewer, and parking enterprise debt, according to city financial statements.

Stockton's financial problems led to "super downgrades" by ratings agencies.

Moody's Investors Service has downgraded the city's issuer credit rating to Ba2 from Baa1 since the city announced its measures to try to avoid bankruptcy

Standard & Poor's has dropped the city to "selective default" after successive downgrades from A-minus.

http://www.bondbuyer.com

Exhibit T

Ralph R. Mabey is Senior of Counsel to Stutman Treister & Glatt P.C. (Los Angeles) and Professor of Law at the S. J. Quinney College of Law, University of Utah. He received his law degree from Columbia University where he served on the Board of Editors of the Columbia Law Review. Judge Mabey served with distinction as a United States Bankruptcy Judge before returning to private practice and teaching. His judicial opinions have been cited frequently by courts and scholars.

He currently serves as a court-appointed mediator in the Lehman Brothers cases in New York, assigned to mediate complex derivatives disputes. Lehman mandatory mediations enjoy approximately a 90% success rate, resolving disputes approaching $1 billion in value.

Judge Mabey recently served as examiner in Extended Stay Hotels and as Trustee of Cajun Electric Power Cooperative, cases also involving several billion dollars. As a court-appointed examiner and trustee, Judge Mabey investigated and evaluated the firms' financial distress and proposed appropriate remedies and solutions.

Courts, parties and the Department of Justice (U.S. Trustee Program) have appointed Judge Mabey to serve as mediator, arbitrator, examiner or trustee in Alaska, Arizona, California, Delaware, Louisiana, Michigan, New York, Texas, Utah, Virginia and Washington, D.C.

He has authored *Expanding the Reach of Alternative Dispute Resolution in Bankruptcy: The Legal and Practical Bases for the Use of Mediation and Other Forms of ADR* (with Professor Charles J. Tabb and Ira S. Dizengoff), 46 South Carolina Law Review 1259 (1995). He was an invited guest and speaker on Alternative Dispute Resolution at INSOL India's 2011 Conference in Gwalior, India.

Judge Mabey has had many prominent bankruptcy engagements, also including counsel for the TWA Airline Pilots Association (ALPA), for official committees in Columbia Gas System and Federated Department Stores, as examiner in the A.H. Robins (Dalkon Shield) case, for creditors in many cases, as special counsel for the debtor in Enron, and as expert witness in the Boston Chicken and ASARCO matters.

Judge Mabey is the past President and Chair of the American College of Bankruptcy. He served as an appointee of the Chief Justice of the United States to the U.S. Judicial Conference's Advisory Committee on the Bankruptcy Rules. He also served as the managing editor of the Norton Bankruptcy Law Adviser and on the Editorial Advisory Board of the American Bankruptcy Law Journal. He is a Contributing Author to *Collier on Bankruptcy*.

He is a member of the National Bankruptcy Conference, the American Law Institute, and a founding member of the International Insolvency Institute.

Stutman Treister & Glatt is a California firm and a pioneer in the bankruptcy field. The firm has practiced exclusively in the insolvency arena for more than 60 years. Extensive Chapter 9 experience includes representation of the County of Orange and more recently Valley Health Systems.

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Exhibit U

NEW BUSINESS

AGENDA ITEM 15.01

June 5, 2012

TO: Mayor and City Council

FROM: Bob Deis, City Manager

SUBJECT: **AB 506 CONTINGENCY OPTION: AUTHORIZE FILING A PETITION SEEKING PROTECTION UNDER CHAPTER 9 OF THE U.S. BANKRUPTCY CODE, ONLY IF THE AB 506 MEDIATION PROCESS DOES NOT RESOLVE THE CITY'S FINANCIAL CHALLENGES BEFORE JULY 1, 2012**

RECOMMENDATION

Approve a resolution authorizing the City Manager to file a petition seeking protection under chapter 9 of the United States Bankruptcy Code only if the AB 506 mediation process currently underway does not result in agreements that both prevent insolvency for FY 2012-13 and meet the City Council's objective of fiscal sustainability.

SUMMARY

The City of Stockton has had massive budget deficits for the past several years. It has depleted reserves, negotiated and imposed compensation and staffing reductions while in a state of fiscal emergency and used every tool at its disposal to avoid insolvency. The FY12-13 General Fund Proposed Budget has an operating shortfall of $25.9 million and provides only a very small reserve. The deficit is projected to grow to $40 million per year within three years in the absence of reducing the City's obligations through restructuring. The financial situation is dire, with no revenue or other funding sources available to balance the City's budget.

The City is insolvent from a service and budget basis today and faces cash insolvency in its General Fund by July 1, 2012 unless the State-mandated AB 506 process initiated by the City on February 28, 2012 results in a significant restructuring of its obligations and cost reductions. This staff report provides an overview of the City's financial condition and describes the need for the City to be prepared to file for bankruptcy protection under chapter 9 as a contingency option, should the AB 506 process not be successful in reducing costs to the level that the City can adopt a balanced budget, as required by the State Constitution and the City Charter, on or before July 1, 2012.

Over the past two years, the City has negotiated major reductions in compensation in its open contracts, reduced staffing and has exercised its fiscal emergency powers to suspend certain obligations under its labor contracts. The City has also missed bond payments and suspended leave payouts for employees leaving the City due to a lack of funds. Employees have been laid off, services cut, and wages and benefits reduced through heart-wrenching negotiations and impositions. The City Council made these reductions and defaulted on its obligations to

prevent essential service reductions to a level that would endanger the health, safety and welfare of the community. Services to the community have fallen to unacceptably low levels despite the City Council's best efforts. The budget gaps have simply been too large to address through workforce and compensation reductions alone if essential services are to continue.

Proceeding with a chapter 9 filing is a last resort for the City. Considerable effort has gone into the AB 506 process, both by the City and by participating creditors, and we remain hopeful that it will result in sufficient restructuring of our obligations so that chapter 9 is avoided. The initial 60 day period required under AB 506 ended on May 27, 2012. A majority of the creditors invoked their power under the statute to extend by another 30 days, concluding the entire 90 day process on June 25, 2012.

We are making the recommendation now for City Council authorization of a contingency option to file for chapter 9 bankruptcy protection in the event the AB 506 mediation fails for several reasons: (1) *It takes time to prepare the documents and (2) the City will be cash insolvent in a month, and 3) a balanced budget is not possible by July 1st, given current obligations, unless the City Council makes further service level reductions that will severely impair the health and safety of the community.*

We are seeking this authorization now, given other steps underway, such as the AB 506 mediation, the State Controller's audit, and the FY 10/11 audit for three primary reasons:

1. **Filing preparation time:** *It takes time to prepare the required documents for a chapter 9 filing and it would not be possible to do so at the last minute and be able to file prior to the start of the new fiscal year which begins on July 1, 2012.* The ending date of the AB 506 process is June 25, and we need to be ready to file later that week if the AB 506 does not result in the City being able to balance its budget without making debilitating service reductions. The bankruptcy court's protection from creditors and legal liability and the adjustment of expenditures available to the City in bankruptcy will be essential to continue operations in FY 2012-13 if the AB 506 mediation does not cure the City's insolvency.

2. **Additional unrestricted funds will not emerge:** *Neither the State Controller's audit nor the City's independent audit currently underway will result in new financial resources that will improve the City's financial position.* Five teams of auditors from the State Controller's Office have projects underway examining Gas Tax reporting, Redevelopment Agency issues, Federal funds passed through the State and State grants and revenues, mandated state program costs for domestic violence reporting and internal and administrative controls. Periods under examination range from FY 2000/01 through FY 2009/10. We also have a team of ten independent CPA's auditing the City's records for Fiscal 2011. We welcome these reviews and, consistent with the Council's strategic objectives, look forward to these auditors' findings to help us put the City's financial house in order. Due to our own investigations, we have been aware since the summer of 2011 that there were serious issues with financial

reporting and management in prior periods. The City has committed countless hours to identifying and remedying problems, and we remain committed to solving problems identified by any source in a timely manner.

Some individuals appear to believe that the results of the State Controller's audit or our independent audit will produce reports that indicate that additional resources will be found to address the resource constraints that have made the City insolvent. However, the preliminary results of the independent CPA's examination have not resulted in findings that would increase available unrestricted fund balances and the State Controller's audit focuses on conditions and reporting that range from two to eleven years old. Insolvency is a problem now and depends on our forecasts of future results. ***The grave situation facing the City now and next year leave no doubt about the City's solvency and the hard work and analysis of our staff indicate that there are no undiscovered or undisclosed pools of resources that could address the City's ongoing structural deficit.***

3. **The City cannot adopt a balanced budget on July 1, 2012:** The City cannot adopt a balanced budget on July 1, 2012, as required by the State's Constitution and the City Charter, absent reduction of costs through restructuring of obligations or severe service level reductions, or both. If the AB 506 mediation process is unsuccessful, chapter 9 will be required because the City will not be able to meet its obligations.

The General Fund is expected to deplete its available unrestricted fund balances by June 30, 2012. The State Constitution prohibits making expenditures and transfers out that will exceed a combination of available revenues, transfers in and beginning fund balances during any fiscal year. Spending more than the City has in available resources creates debt payable from future years' revenue. Any debt subject to this Constitutional limitation must first be approved by voters and is limited to capital expenditures. The City Council and City staff cannot authorize expenditures that would create impermissible debt knowing that planned expenditures will exceed available resources. This requires the City to adopt a balanced budget.

The estimated $26 million gap for FY 2012/13 cannot be closed with one-time sources of funding or other marginal approaches to budget balancing. The City has no resources – one-time or otherwise – to close this gap. Since the gap will widen significantly, as described later in this report, it is essential that the ongoing structural problem be solved. The City must create a plan to emerge from this fiscal crisis that makes it truly sustainable, with reliable ongoing revenues covering full ongoing costs (both direct and indirect), and sufficient reserves to weather economic uncertainty, revenue fluctuations and emergency spending requirements.

Services are already at or below minimum for residents and businesses. The level of service delivery cuts made in the past two years has had a serious, negative impact on the Stockton community. Public safety is at a crisis level in the community, in part due to staffing reductions. In 2011, there were 58 homicides in Stockton, an all time record. At this time last year there had been seven homicides, but as of May 4, 2012 we were already up to 23 for the

year. We are also experiencing a 30% increase in gun violence from last year. The community justifiably feels vulnerable. Since public safety (police and fire) expenditures comprise the majority of General Fund expenditures, eliminating the budget gap through expenditure reductions would hit those services hard. We believe further reductions would threaten the health, safety and welfare of our residents.

The City is clearly insolvent from both a service delivery and budget perspective. We are rapidly approaching a cash insolvency threshold which, short of AB 506 restructuring, will leave no option other than seeking bankruptcy protection. This is despite vigorous efforts over the last two years to cut expenditures. These expenditure reductions have resulted in drastic cuts in the number of City employees, difficult service reductions to City residents and painful compensation adjustments for the remaining employees. We believe that the City must concentrate its limited resources on sustaining basic services to its residents and businesses. Our highest priority is to provide for public health and safety. Significant further erosion in staffing and service levels is inconsistent with this priority.

There are many reasons for the City's financial situation. Some of those reasons are related to decisions made over the last 20 years which, in hindsight, surely can be questioned. Many relate to exogenous factors – such as foreclosures, loss of jobs, and decline in property values and State raids on revenues and elimination of redevelopment – that have impacted the City's overall fiscal situation, perhaps more severely than most communities in the United States. Current City management has, over the past two years, identified the underlying problems giving rise to the financial crisis the City finds itself in, and has made significant strides in correcting the problems that are within management's control. The City has made a strong start in redesigning City operations to create an efficient and effective organization and new procedures have been put into place. Unfortunately, no amount of process reengineering or reorganization can achieve the objective of financial sustainability without the concomitant realignment and restructuring of some of the City's obligations. The size of the deficit is such that small changes will not correct insolvency or put the City on a path to a sustainable financial future.

Stockton must emerge from either the AB 506 process or chapter 9 with a financially sustainable future. Therefore, the course of action being recommended to the Council is critical – that of authorizing the filing bankruptcy under chapter 9 if the AB 506 process is unsuccessful in restructuring the City's obligations. It is important to emphasize that: 1) we are still aggressively pursuing financial restructuring via the AB 506 process; 2) we are not asking you to file bankruptcy today; and 3) it is only upon failing to resolve our financial structural issues on or before the June 25 expiration of the AB 506 process do we plan to utilize chapter 9.

The balance of this report is organized into the following major sections:

- **Tentative Schedule**
- **General Fund Forecast**
- **Restricted Funds and Cash Balances**

- **How Did We Get Here**
- **Actions to Balance the Budget and Reduce Costs**
- **Service Reductions**
- **AB 506 Mediation Process**
- **Revenue Options**
- **Authorization for a Contingency Option to Seek Chapter 9 Bankruptcy if the AB 506 Mediation Process Does Not Resolve the City's Financial Challenges**
- **Conclusions**

TENTATIVE SCHEDULE

The following provides a tentative schedule for each of the major processes currently underway to meet the City's obligations under state and federal law to provide a balanced budget and prepare a long term fiscal stability plan.

Table 1. Tentative Schedule for AB 506 Mediation, Chapter 9 Bankruptcy Contingency Plan and City Budget Adoption

Date	Description
AB 506 Mediation Process and Contingency Plan	
February 28	AB 506 Mediation Process authorized by City Council
March 27	60 Day Mediation period commenced upon selection of the mediator
May 26	Initial deadline for AB 506 completion. Majority of the interested parties extended the mediation by another 30 days until June 25, 2012
June 5	City Council Meeting on Authorization to File Petition Seeking Protection Under Chapter 9 of the U.S. Bankruptcy Code, if the AB 506 Mediation Process Fails
June 25	Last day of the 30 day AB 506 extension
June 26	First day on which the City may file a chapter 9 case if 506 unsuccessful
June 29	Last regular business day of FY 2011-12
Early September	Hearing on City's eligibility petition for chapter 9 relief, if filed (estimated timeframe)
FY12-13 Budget Adoption	
May 15	Publish Proposed FY12-13 Budget
June 11 and 18	Budget Workshops
June 26	Adoption of FY 2012-13 Budget and potential Pendency Plan

GENERAL FUND FORECAST

The City released its FY12-13 Budget on May 15, 2012, and based on updated personnel costs and other information, the long-term General Fund forecast has been revised accordingly.

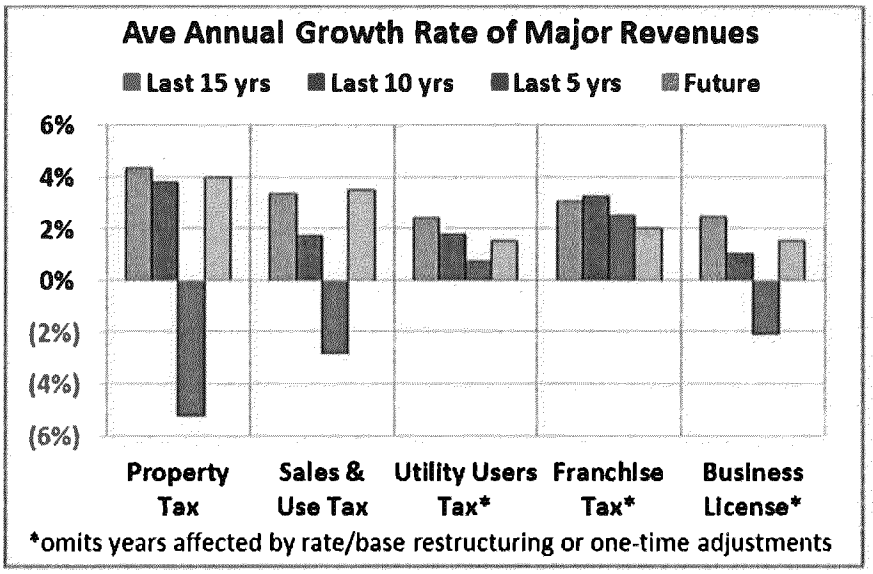
Baseline Budget: The forecast starts with a baseline budget which is a continuation of the status quo, but reflects cost increases in pensions, retiree medical and other services and supplies that must be purchased by the City to continue the current minimal level of service it is providing. The estimates in the model do not include salary COLAs or benefit increased scheduled under the current contracts, or restoring pay and benefit reductions imposed in connection with fiscal emergency resolutions during the last two years. The annual General Fund savings generated by these assumptions through the end of current contracts is approximately $18 million. The Baseline Budget also does not include certain fiscal stabilization measures that are included in the Proposed FY 12-13 Budget and discussed further below.

Revenue Assumptions - Key baseline revenue assumptions include:

1. Property tax assumes slow recovery with additional declines in FY12-13 and FY13-14 before increasing to 4% long-term growth by FY18-19. The FY12-13 estimate is from HdL, the City's property tax auditor; future estimates are based on discussions with the County Assessor and local business interests, e.g. banks and developers. Proposition 13 will hold down property tax growth as the annual assessed value adjustments of properties (which are already selling at deflated levels) are limited to the lesser of the change in the California consumer price index or two percent, unless sold. Sale prices will depend on the rate of market recovery, and whether trends shift to renting closer to work, rather than owning farther away. The long-term trend is straight-line, and although there will be years where revenue growth is higher and others where it is lower, the forecast does not attempt to predict which years the ups and downs (or negative growth) will occur.
2. Sales tax is based on HdL estimates through FY15-16, and assumes 3.5% long-term growth thereafter (which exceeds long-term CPI growth of 2.5%). The shift toward non-taxable services and non-taxed internet sales will hold down growth over time. Again, the long-term trend is straight-line and does not attempt to predict specific years that will be higher or lower than this estimate.
3. Utility Users Tax (UUT) and Business License Tax (BLT) are projected to grow at 1.5% over the long-term, and the Franchise Tax at 2.0%. The UUT and Franchise Tax are subject to impact of user conservation, and technology trends (wireless vs. cable). The BLT is expected to grow slowly given local economic conditions.

The following graph compares the historical annual average growth rate over the long-term (15 years), medium-term (10 years) and short-term (5 years) for the five largest General Fund revenues, in comparison to the ongoing future growth rate for these revenues contained in the ten-year General Fund budget forecast.

Figure 1. General Fund Revenue Average Growth Rate

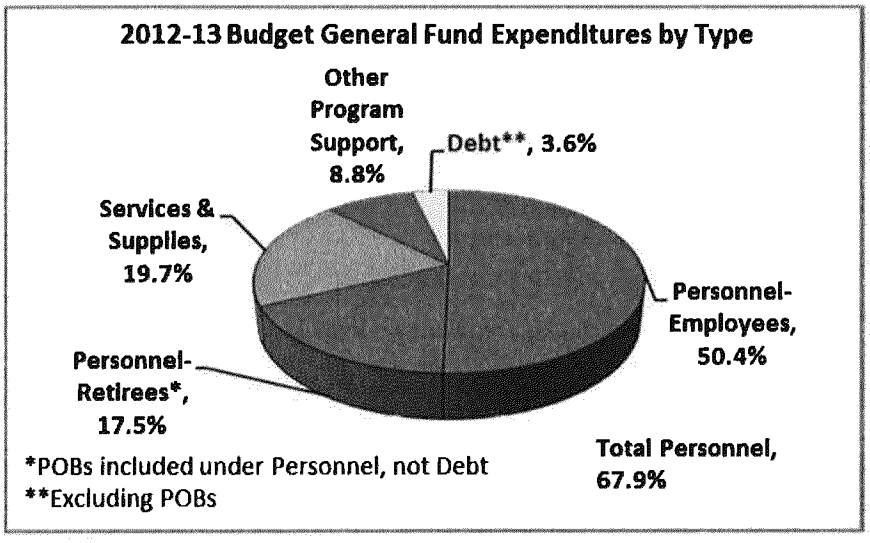


Expenditure Assumptions - Key baseline expenditure assumptions include:

1. CalPERS costs are driven by the state's actuarial report, a 0.5% lower CalPERS discount rate for investment earnings (1/4% approved by the CalPERS Board starting in FY13-14 and 1/4% expected to start in FY15-16), and lower City payroll which will drive up part of the CalPERS liability rate that pays off the unfunded liability. The major risk is additional reductions in the discount rate and/or CalPERS investment losses, which would drive employer rates up further. There is the risk that future labor negotiations (or court rulings) will result in lower employee contributions, which will drive up City costs.
2. Increase in salaries in FY12-13 is primarily due to absorbing Police personnel that were previously paid by grants; future year growth reflects merit pay increases. There is the risk that future labor negotiations (or court rulings) will result in higher employee pay levels. In the baseline analysis no salary increases are projected for the ten year period.
3. Employee health costs are flat, as it is assumed the City contribution level does not change. There is the risk that future labor negotiations (or court rulings) will result in higher City health contributions, which would be compounded by the growth rate in medical costs reflected in the City's self insurance plan.
4. Retiree health costs are driven by the forecast in Segal actuarial report with annual growth averaging 9% growth over the next four years and 6.9% through FY20-21. The major risks are higher growth in medical premiums or higher numbers of retirees sooner than projected.
5. Net debt costs are higher in the near-term due to lower rents and cost of tenant improvements at 400 E. Main, but decrease as the lease-up rate improves. The major risk is a higher vacancy rate.

The projected major General Fund expenses of $180.8 million for FY12-13 are shown by type in Figure 2.

Figure 2. FY12-13 Budget General Fund Expenditures



Ten-Year Baseline General Fund Budget: The following table shows a net shortfall of $8.7 million in FY11-12, before the City Council actions of February 28, 2012.[1] Without the fiscal stabilization expenses included in the FY12-13 proposed budget, the projected shortfall from the baseline expenditures alone increases to $23.0 million in FY12-13, and rises to an annual average shortfall of $37.2 million from FY15-16 through FY20-21. The baseline budget forecast contains no reserves, and actual General Fund deficits start in FY12-13 and would continually grow in future years. However, the City cannot adopt deficit budgets, so sufficient corrective actions must be adopted for FY12-13 that both eliminate the shortfalls *and* leave an adequate unrestricted fund balance.[2]

[1] With a re-stated negative balance for June 30, 2011 of $6,553,156 and a FY11-12 operating shortfall of $8,652,768, the February 28, 2012 City Council actions totaling $15,205,924 are expected to leave the General Fund with zero available unrestricted fund balance as of June 30, 2012.
[2] The Government Finance Officers Association recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures, which is equivalent to 16.67% of those amounts. Cities with formal reserve policies generally specify between 10-20% reserve levels.

Table 2. General Fund Baseline Budget Forecast

General Fund Baseline Expense Forecast by Major Categories

($ in Millions)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Salary	$52.0	$56.4	$56.5	$56.9	$59.9	$60.1	$60.4	$60.6	$61.0	$61.7
Pension-PERS	16.1	16.6	22.1	22.9	25.4	26.2	27.1	28.0	28.9	29.9
Pension-POBs	5.6	5.8	6.2	6.3	6.4	6.5	6.6	6.7	6.8	6.9
Health-Employees	9.5	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Health-Retirees	8.0	9.2	9.6	10.4	11.2	11.5	12.2	12.9	13.7	14.5
Overtime/Standby/Callback	6.8	7.3	7.4	7.5	7.6	7.7	7.8	7.9	8.0	8.1
Workers Comp	5.7	6.4	6.5	6.6	6.8	6.9	7.0	7.2	7.3	7.5
Other Pay/Benefits	7.1	6.6	6.7	6.8	6.8	6.9	7.0	7.1	7.1	7.2
Compensated Absenses	4.3	4.5	4.8	4.6	4.6	4.6	4.6	4.6	4.6	4.6
Subtotal Personnel	115.1	121.6	128.6	130.9	137.6	139.3	141.6	143.8	146.4	149.3
Services & Supplies	33.1	33.6	34.9	35.2	36.1	36.3	37.3	37.5	38.5	38.8
Other Program Support	13.2	14.1	15.4	15.6	15.9	16.1	15.4	15.3	15.6	15.8
Debt (excluding POBs)	4.4	6.6	7.4	6.0	6.1	5.6	5.5	5.4	5.3	5.3
Contingency	1.6	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Expense	167.4	177.9	188.3	189.7	197.6	199.3	201.7	204.0	207.8	211.2
Total Revenue*	158.7	154.9	154.3	155.4	157.7	160.7	164.3	168.0	171.8	175.7
Net Annual Shortfall	(8.7)	(23.0)	(34.1)	(34.3)	(39.8)	(38.6)	(37.4)	(36.1)	(36.0)	(35.5)

*Total revenue affected by negative interest resulting from negative balances.

FY12-13 Budget: Baseline plus Fiscal Stabilization and Sustainability

While the immediate focus by the City is to maintain ***cash solvency***, in the long term the City must remain a competitive employer, rebuild reserves and make additional investments in technology and deferred maintenance if it is to achieve long-term ***budget solvency***, i.e., the ability to pay for all the fiscal year's expenses related to a given service level (even if that service level is well below what is warranted for the health, safety and welfare of the community). Even though the expenditure levels in the baseline budget exceed available resources, the FY12-13 proposed budget includes the following minimal additional measures because they are required if the City is to become a sustainable organization over the long-term:

- Furloughs phased out over two years to support staff capacity and workload management.
- Salary and health cost of living adjustments of 2% annually assumed to start in FY15-16, which would be required for employee recruitment and retention to remain competitive in the labor marketplace.
- Increased investment in deferred maintenance of at least $1 million annually to avoid much more costly and unavoidable expenditures in the future.

- Increased investment of $250,000 annually in added technology to increase productivity and enable staff to provide cost effective service to the public.
- Increased contribution of $750,000 annually to replace equipment effectively.

Table 3 shows that the baseline budget with fiscal stabilization measures results in even greater ongoing deficits, and no reserves, absent corrective actions. The net shortfall remains at $8.7 million in FY11-12 (before the City Council February 28, 2012 actions), rising to $25.9 million in FY12-13 under the proposed budget, and increasing to $56.4 million by FY20-21. This is a more accurate representation of the actual shortfall facing the City because it reflects the type of expenditures, albeit at a low level, the City would be required to make to sustain this level of service over the long term.

Table 3. General Fund Baseline Forecast + Fiscal Stabilization (FY12-13 Proposed Budget)

General Fund Baseline Expense Forecast Plus Fiscal Stabilization Expenses

($ in Millions)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Baseline Expense	$167.4	$177.9	$188.3	$189.7	$197.6	$199.3	$201.7	$204.0	$207.8	$211.2
Deferred Maintenance	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Technology/Workers Comp	-	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Phase-out Furloughs/Other	-	1.2	1.3	2.5	2.7	2.8	2.9	3.0	3.1	3.2
2% Salary/Health COLAs	-	-	-	-	2.4	4.9	7.4	10.1	12.8	15.7
Total Expense	167.4	180.8	191.6	194.2	204.6	209.0	214.0	219.1	225.7	232.1
Total Revenue*	158.7	154.9	154.3	155.4	157.7	160.7	164.3	168.0	171.8	175.7
Net Annual Shortfall	(8.7)	(25.9)	(37.3)	(38.9)	(46.9)	(48.2)	(49.7)	(51.1)	(53.9)	(56.4)

*Total revenue affected by negative interest resulting from lower balances than baseline budget.

Impact of Restoring Imposed Labor Cost Reductions

The impact of restoring any or all of the pay and benefit reductions imposed by the City as a result of court actions would be significant. Depending on court determinations, it is possible that pay reductions would be restored retroactively; such costs would then have to be added to the annual baseline budget going forward. How much this would ultimately cost depends on whether the City would be required to restore all pay and benefits for SPOA and SCEA. Additional potential cost increases not assumed in this projection are City contributions for employee health plans, currently capped, if the cap was to be removed. City contributions would then increase, and resume growing at the level of growth in medical premiums.

Table 4 assumes an annual increase of approximately $15.3 million in pay and benefit reductions either previously imposed or excluded from the baseline budget during FY12-13, and $1.2 million in each of the next two fiscal years, for a compounded total of $18.3 million by FY14-15.

These costs are not included in the baseline budget. Adding these payroll costs to the baseline budget with fiscal stabilization expenditures causes the net shortfall (before February's corrective actions) to jump to $21.2 million in FY11-12. This assumes $12.5 million in back pay and benefits would have to be paid by the end of the current fiscal year, although actual resolution of the cases may take longer. This annual shortfall rises to $41.2 million in FY12-13, and increases rapidly to $88.5 million by FY20-21.

Table 4. General Fund Baseline + Fiscal Stabilization + Salary and Benefit Pay Restoration

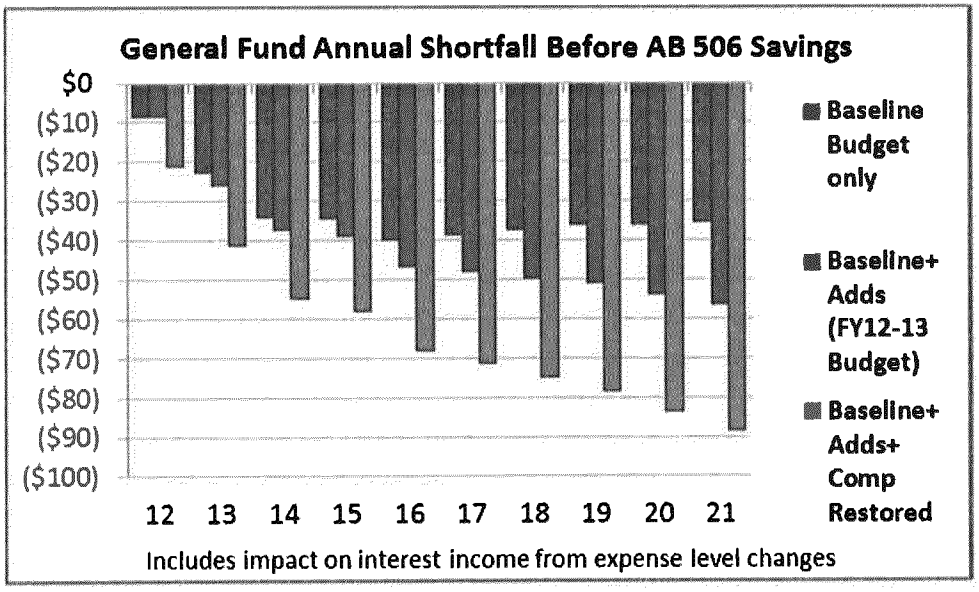
General Fund Baseline Expense With Restoration of Pay & Benefit Cuts Plus Fiscal Stabilization

($ in Millions)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Baseline Expense	$167.4	$177.9	$188.3	$189.7	$197.6	$199.3	$201.7	$204.0	$207.8	$211.2
Pay/Benefits Restored	12.5	15.3	17.0	18.3	19.8	21.1	22.5	23.9	25.4	27.0
Fiscal Stabilization Expense	-	2.9	3.3	4.5	7.4	10.3	13.3	16.4	19.7	23.1
Total Expense	179.9	196.1	208.6	212.6	224.8	230.7	237.5	244.3	252.8	261.3
Total Revenue*	158.7	154.9	153.7	154.6	156.6	159.4	162.6	165.9	169.3	172.8
Net Annual Shortfall	(21.2)	(41.2)	(54.9)	(58.0)	(68.1)	(71.3)	(74.9)	(78.4)	(83.5)	(88.5)

*Total revenue affected by negative interest resulting from lower balances than baseline plus fiscal stabilization.

The following chart summarizes the three alternative levels of net annual shortfall facing the City in the AB 506 process.

Figure 3. Alternative General Fund Shortfall Levels



RESTRICTED FUNDS AND CASH BALANCES

The General Fund's resources are unrestricted with only some exceptions. It is the fund that pays for everything that is not required to be reported in other funds, including core services like Police, Fire, Public Works, Libraries and Recreation. Though other funds are solvent and can function normally, the General Fund is insolvent because we have not been able to meet our contractual obligations. Other funds that are restricted by law, grant or contract cannot provide resources to close a funding gap in the General Fund. Doing so and not repaying the funds with current year resources creates impermissible debt prohibited by the state constitution and violates the laws that limit use of restricted funds to specified purposes.

The City has over 200 individual accounting funds established to segregate revenues that are restricted by Federal, State or other sources for specific purposes. Restricted revenue sources include, as examples, water fees, gas tax, development impact fees, safety and transportation taxes, grants and special districts. Staff, in consultation with counsel and consultants, has prepared a detailed analysis explaining which City funds are unrestricted and available for operational use, and which are restricted. The analysis also identifies the source of restriction, whether statute, grant, or contract, each restricted fund.

The Governmental Accounting Standards Board (GASB) has recently updated the definitions of different types of funds:

- *General Fund* – To account for all financial resources not accounted for and reported in another fund.
- *Special Revenue Funds* – To account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service and capital projects.
- *Capital Projects Fund* - To account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays.
- *Debt Service Funds* - To account for all financial resources that are restricted, committed, or assigned to expenditure for principal and interest.
- *Permanent Funds* - To account for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs – that is, for the benefit of the government or its citizens.

Fund balances within each fund are classified as follows, depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Non-spendable fund balance*—amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund)

- *Restricted fund balance*—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation
- *Committed fund balance*—amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint
- *Assigned fund balance*—amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority
- *Unassigned fund balance*—amounts that are available for any purpose; these amounts are reported only in the general fund.

A committed or an assigned fund balance in an unrestricted fund is a type of restriction which can be changed by the City Council. Those fund balances can be reassigned if they do not affect services critical to the health, safety and welfare of the community. In the actions approved on February 28, 2012, the City Council reassigned all unrestricted funds that it could consistent with its intent to maintain sustainable critical services.

The funds follow the previous GASB requirements and the revised definitions will be used for future reports. However, the revised definitions are helpful in understanding how funds are restricted and whether the City Council has the authority to change any restrictions.

Cash balances: Overall, the composite balance of the City's total cash and investment portfolio, as reported in the most recent financial statements for the year ended June 30, 2011, (currently being audited) was $360 million. Of this balance, $354 million was held in restricted funds (assessment districts, bonds, trust funds, special revenues, and tax measures), $6 million was held in partially restricted funds and the General Fund had a negative balance of $9,253. As of February 29, 2012, the General Fund cash balance grew to a negative $2,078,545. While the City continues to hold significant cash and investment balances, the overwhelming majority are from restricted sources not available for general operations.

Table 5 shows the City's cash balance progression as it continues to resolve revenue and expenditure issues.

Table 5. Restricted, Partially Restricted, and Unrestricted Cash Balances for June 2010, June 2011, and February 2012

Fund Type	Cash Balance		
	Jun 30, 2010	Jun 30, 2011	Feb 29, 2012
Restricted Funds	$472,789,991	$353,512,228	$297,411,869
Partially Restricted	$6,417,336	$6,222,020	$4,907,720
Unrestricted	$2,263,158	($9,253)	($2,078,545)
Total	$481,470,485	$359,724,995	$300,241,044

While unrestricted cash was a negative $2.1 million at the end of February, the April property tax receipts, together with net operations over the ensuing four months and anticipated net short-term receivables, are projected to leave the General Fund with a zero available unrestricted fund balance as of June 30, 2012. This was the forecast provided to the City Council at its February 28, 2012 meeting, and that estimate has not changed.

LEGAL AND ACCOUNTING CONSIDERATIONS IN DETERMINING INSOLVENCY

The City is approaching the point where it could overspend its resources, creating impermissible debt. Unlike a private business, the diversity of restricted funding sources and resources affect the determination of what constitutes insolvency. Throughout the year, the General Fund of the City operates in some months with a deficit balance in the pooled cash and investments of the City. That deficit is alleviated twice a year when property tax installments are received in December and April. As long as the City has a positive available unrestricted fund balance equal to or greater than zero by the end of the fiscal year, those deficit pooled cash balances do not mean the City is cash insolvent. Generally speaking available unrestricted fund balances represent net current assets (essentially cash and current receivables minus current payables).

However, whenever a fiscal year end forecast results in a deficit available fund balance expenditure plans must be adjusted to prevent the City from ending the year in a deficit. If the negative amount can be managed with administrative actions, the Council does not need to act. However, several times this year, the Council was informed of potential available unrestricted fund balance deficits and took immediate action to make necessary adjustments. However, the actions approved on February 28, 2012 used up the last unrestricted reserves from various funds available to the City, resulting in a projected June 30, 2012 available unrestricted fund balance barely above zero. When no resources or acceptable service reductions can close a deficit gap the City would be cash insolvent.

At that point the City could not approve spending under a budget plan that would create a deficit and would have to implement priority systems for limiting its obligations for services, supplies and personnel costs to make sure it did not violate the law.

Our projection of unrestricted available fund balance has not changed significantly from the February 28, 2012 report and we expect the City will have a zero available unrestricted fund balance at the end of the current fiscal year. The only reason the City will end the year with zero, rather than in a negative position, is that the City did not pay on some of its legal obligations. Such nonpayment resulted in legal action by an indenture trustee and the City's loss of possession of three parking garages, among other things. These breaches of legal obligations defer technical insolvency to allow the AB 506 process to continue because future revenues are not committed to cure the breaches. However, inability to meet its legal financial obligations is evidence the City is insolvent in FY 2011-2012 and FY 2012-2013.

Legal and accounting requirements limit the City's ability to raise or borrow money to close revenue shortfalls. Both the State constitution and the City Charter require the City to have a balanced budget at the beginning of each fiscal year. Proposition 13 limits property tax rates to 1% of fair market value, exclusive of voter-approved bonded indebtedness. Proposition 218, passed by the voters in 1996, requires that a majority of voters approve any new or increased general tax and that a two-thirds majority approve any new or increased special tax.

Further, the City cannot borrow the funds to make up a cash flow or revenue shortfall. Article XVI, Section 18 of the California Constitution prohibits California cities from incurring in any year a debt which they cannot pay from revenues attributable to the same year, absent two-thirds voter approval for borrowing beyond the fiscal year. In other words, each year's revenue must pay each year's expenditures. Given its current finances, the City cannot pay back a loan with unrestricted revenues attributable to FY12-13. Obtaining voter approval for new taxes or borrowing would be highly speculative under normal circumstances; it is even more uncertain given the City's historically high rates of foreclosures and unemployment, and the fact that we administer a uniquely generous retiree health program and are financially exposed to various litigation matters. Furthermore, it is simply too late to benefit FY 12-13.

Moreover, there are serious consequences for City officials who knowingly allow expenditure of restricted funds for unrestricted purposes, or allow expenditure of funds where there is insufficient money available to pay for such expenditures. The following excerpt from Municipal Bankruptcy: Avoiding and Using Chapter 9 in Times of Fiscal Stress clarifies and emphasizes this point:

> *In such a case, use of restricted funds in pooled cash could be a violation of the restrictions imposed on the special funds and therefore illegal. It is important to note that while municipal financial officers generally have immunity from personal liability for official acts that immunity does not necessarily extend to knowing violations of the law. Thus, a municipal finance officer should be very careful not to permit advances from restricted funds intra-year if he or she knows that the amounts cannot be restored from*

budgeted revenues or reserves by the end of the fiscal year. It is very important for a municipality that appears to be headed for insolvency to monitor its cash position, particularly in the funds that are projected to go negative by the end of the fiscal year, so that it can determine when it will run out of funds to keep operations going.

A municipal official who requires or even permits employees to come to work if the official knows that the municipality will not be able to pay them may be violating state labor laws or committing common law fraud... For example, if an employee is paid from a municipality's general fund (and cannot be allocated to some other special restricted fund because the employee's duties do not support the special fund's activities), and the general fund budget position is such that, taking into account any available reserves, it will be unable to achieve at least a zero year-end balance without using legally restricted funds in pooled cash, the municipality could be faced with the choice of either breaking the law by using restricted funds for an impermissible purpose or by failing to pay contracted for wages after work has been performed. If either of these occurs with foreknowledge by the municipality's managers or governing body, normal governmental immunity for official acts may not protect such officials from personal liability.[3]

HOW DID WE GET HERE

The City of Stockton has suffered to a greater extent than most areas in the country from the effects of the "Great Recession," which has been compounded by the cumulative effects of poor decisions, management and accounting practices. The following is a brief recap of internal and external precipitating events which have led to the City's current financial crisis.

1) Unsustainable Retiree Health Benefits

In the 1990's, the City greatly expanded its retiree health insurance commitments to levels well beyond what other cities offered, but did not fund it in an actuarially sound basis. Annual pay-as-you-go costs for all funds total $13.8 million ($9.2 million for the General Fund) currently, and will double in ten years to $27.4 million. In the past two years, annual costs have increased by $1.5 million despite benefit restructuring that reduced the unfunded liability by $100 million. Even with these steps, the unfunded liability for retiree health benefits remains at $417 million, and there is no money set aside to pre-fund these obligations. If we were to properly fund these obligations, we would need to set aside 30 percent of payroll. This is roughly twice what we are budgeting for now. While $417 million is the present day value of the City retiree medical benefits, in fact the actual projected expenditures over the next 60 years for claims alone is in excess of $1.6 billion on a pay-as–you-go basis.

Of the approximately 2,400 City retirees, slightly fewer than 1,100 receive medical benefits. These 1,100 are the more recent retirees, the vast majority of whom retired with enhanced

[3] Municipal Bankruptcy: Avoiding and Using Chapter 9 in Times of Fiscal Stress, by John Knox and Marc Levinson, 2009 by Orrick, Herrington & Sutcliffe LLP

pension benefits and whose pensions are on average twice as high as City retirees without retiree medical benefits. For these retirees, the City pays for the full premium for the retiree and one dependent. There is no cap on City costs for the retiree/dependent premium, and no minimum years of service are required to receive the benefit except for the SCEA and OE3 groups who have a requirement of 15 years of Stockton service. This benefit level is extremely rare in the state. We know it does not exist in the 16 cities that we surveyed. Starting in FY2013-14, the City will be spending more on health benefits for retirees than for current employees. Costs are predicted by the City's outside consultants to increase at an average of 9% annually over the next four years, and 6.9% over the next 10 years, including health premium increases and new retirees who remain eligible for the benefits.

2) Labor Contract Restructuring

In previous years, the City approved labor contracts that were neither transparent nor sustainable. Automatic salary increases were tied to other cities that were not reasonable comparisons to Stockton's labor market. The base salary used for comparison excluded many "additional pays" for longevity, education and specialty assignments, so that while base pay might not have appeared unreasonable, total compensation grew higher than the labor market. Premium pay, management of overtime and sick leave payouts at separation are very expensive and hinder the City's ability to meet its other obligations. Contracts restricted management's ability to reduce staffing levels or restructure service delivery.

As the financial picture worsened, most labor groups were willing to renegotiate closed contracts to reduce compensation and benefits over the labor market. However, the Stockton Police Officers Association (SPOA) and the Stockton City Employees Association (SCEA) were not willing to make these same changes, and the City Council had to declare two fiscal emergencies and impose concessions on these two groups that represent the majority of the City's employees. The emergency impositions are being challenged in court and at the Public Employment Relations Board (PERB) by SPOA and SCEA. The ultimate outcome in these matters has yet to be determined, but if labor groups succeed, an additional $16 million will be added to the City's ongoing deficit, as well as another $12.5 million in back pay, which has not been budgeted. Any back pay award would be added to the City's deficit projections.

3) Excessive Debt Burden (A Six-Fold Increase in General Fund and Related Debt Over Six Years)

The City incurred very large amounts of debt in the last decade to finance an ambitious plan for new public facilities and downtown improvement, including:

- $13 million for housing projects at Hotel Stockton, Mercy Housing, Fremont Park (2003 Certificates of Participation)
- $46 million for the events center/arena (2004 RDA Revenue Bonds)
- $32 million for three parking garages and other capital projects (2004 Lease Revenue Bonds)

- $13.5 million for the Essential Services Building (completed in 2001 and refinanced by the 2006 Lease Revenue Bonds)
- $11 million for marina improvements (2006 Dept of Boating & Waterways loan)
- $40 million for a new City Hall (2007 Lease Revenue Bonds)
- $35 million for a fire station, police communications center, parks and street improvements (2009 Lease Revenue Bonds)

The City assumed the hyper growth that was occurring in the housing sector would continue indefinitely, and that developer fees and property tax growth would provide sufficient revenue to meet these new obligations. As a result, the City "back loaded" some debt payment schedules that increased annual debt payments over time. In order to finance its new facilities, the City agreed to use the General Fund as backup security for bond repayment, even where other payments streams were available. In 2007, the City also took on $125 million of pension obligation bonds in an effort to pay off an unfunded liability at a lower cost than PERS actuarial rates just before CalPERS sustained huge portfolio losses. It also lost a judgment to the Jarvis organization which requires the General Fund to make $34 million in repayments to the Water and Wastewater funds over 30 years.

Before the economic downturn, the City took on additional risk by issuing variable rate bonds, and counting on significant rental income from the 400 E. Main building. Even as revenues began to decline significantly, the City issued its 2009 lease revenue bonds to provide funding for development related projects, counting on development impact fees from new development to cover the General Fund's obligation to make debt service payments. With the collapse of the housing market, new construction stalled and assessed values plunged. The General Fund is consequently backfilling various bond obligations at a time when debt service increased nearly six-fold, from $3 million in FY 2006-07 to $17.2 million in FY 2012-13.

4) The Impact of National and State Economy Hit Hard Locally

The decline in the national and state economy or the Great Recession, beginning in 2007 and 2008, impacted the Central Valley particularly hard. Recovery has been and will continue to be slow. Stockton's housing market has been among the hardest hit in the country, and increased activity or growth in this sector is not projected until 2017. The following are general indications of Stockton's current economic environment:

- Stockton has the worst foreclosure rate in the U.S. with one out of every 60 homes at some stage of foreclosure.
- A nationwide study in 2011 of home loans ranked Stockton 2nd highest in loans "underwater" at 56% (second only to Las Vegas at 66%).
- The City currently ranks 3rd out of 306 metropolitan areas nationwide in magnitude of home value reduction over the past five years at 57.2%.

- The median home price in February 2012 was $118,500 (down from $407,000 in December 2005).

- Total single-family housing starts in the Stockton metropolitan area averaged 150 new units per year over the three calendar years of 2009, 2010 and 2011, which is only 5% of the average 3,000 housing starts per year over the three pre-recession years of 2003, 2004 and 2005.

- Stockton's unemployment rate remains at 19.9%, almost two and one-half times the national rate of 8.2%, and almost double California's rate of 10.9%, and this does not consider the Stockton's percentage of "underemployed" workers which approaches 40%.

A major consequence of this economic decline is the impact on property tax revenues. The California property tax system is unusual in that annual assessed value adjustments are limited to the lesser of the change in the California consumer price index or two percent. An increase in the fair market value does occur upon a change in property ownership and new construction is assessed at a value established by the market sale. However, where changes in ownership result in a lower assessed value (which is typically the case in foreclosures and short sales) the new base is locked in at the lower value. Thus, the high rate of foreclosures in Stockton will penalize the City for years to come with lower property tax revenues and growth rates compared to cities with lower foreclosure levels.

5) Elimination of Redevelopment

In addition to suffering the adverse financial impacts of the housing crash, high unemployment and business losses, the City was required to eliminate its redevelopment agency last February. All cities in California were required to do so as a result of state legislation. Stockton's Redevelopment Agency (RDA) played a key role in downtown and urban renewal and constructing the infrastructure necessary to attract business and development.

As allowed under the redevelopment dissolution bill (AB 26), the City elected to become the successor agency to the RDA. The City made this decision in order to protect its interests in terms of debt management and disposition of real property. The City's General Fund backs the 2003 Housing COPs and the 2004 Arena bonds (it does not back the 2006 Strong Neighborhood Initiative bonds). An over-arching City debt management strategy requires consideration of these obligations, and the City elected to become the RDA successor agency in order to protect its interests in this regard. Additionally, the City owns many key pieces of property in downtown Stockton subject to liquidation under the dissolution bill.

As the RDA successor agency, the City plays a leadership role in managing property liquidation. While successor agency actions are subject to approval by a third-party oversight board, as successor agency, the City is in the position to analyze impacts and forward and forward recommendations to the oversight board. Due to the "waterfall" distribution of tax increment

funds under the dissolution bill, there are no property tax increment revenues to cover staff costs associated with successor agency responsibilities.

While limited cost recovery is allowed under the dissolution bill (a minimum of $250,000 per year for four years), there is simply not sufficient tax increment revenue to cover obligations with higher priority, including debt service and pass through payments, and successor agency costs. Therefore, these costs must be borne by the City's General Fund.

Tax increment revenue has plunged from $25.6 million in FY 2008-09 to about $9.3 million in FY 2012-13, a decline of 64% since the real estate markets collapsed. As of June 30, 2011 the RDA had a net pooled cash and investments deficit of $3.9 million for all project areas. It is worth noting that the Agency's financial distress was exacerbated by the State's continued raid on tax increment. Over the last two years (FY 09-10 and FY 10-11), in addition to the regular payments the Redevelopment Agency was required to make to the State (totaling $6.2 million), the State took a supplemental amount of $11 million from the Redevelopment Agency.

The RDA overspent projects over the past four years and the resulting cash overdrafts were addressed through unauthorized working capital loans with the City that were not transparent. The North Stockton and Waterfront redevelopment produced a combined overdraft of over $9 million, while other areas, including Midtown, South Stockton and Affordable Housing programs have surplus cash balances of almost $6 million. The RDA's net cash position at June 30, 2011 is an overdraft of $3.9 million. The February 28, 2012 City Council meeting authorized the adjustments necessary to eliminate the deficit. Despite this, the low tax increment will create ongoing burdens for the General Fund, given its (backup security) obligation to backfill the 2003 Housing Certificates of Participation (COPS) and 2004 Arena bonds.

6) Financial Adjustments

When new financial staff came to the City in 2010, a number of accounting errors were discovered that had accumulated from prior years. These were discussed at the February 28, 2012 City Council meeting and appropriate prior period adjustments were approved. These errors included double-counting parking citation cash, failure to write down as uncollectible accounts receivable dating back as long as ten years or more, and adjustments to wages payable and expenditures, which had the net effect of overstating General Fund available fund balance by $3.8 million.

At the February 28th meeting, staff also provided updates regarding the FY10-11 and FY11-12 General Fund Available Balance. Table 6 summarizes the information provided at that time. The adjusted fund balances resulted in a projected net shortfall of $15.2 million by June 30, 2012. The City took action to close the gap by making multiple transfers from available funds for the balance of this fiscal year, leaving the General Fund with a projected zero available fund balance at June 30, 2012. These actions included reallocating funds designated to move staff into the new city hall, reducing replacement funds for fleet and technology, and eliminating a popular arts endowment.

Table 6. Projected General Fund Available Balance based on February 28, 2012 Actions
($ in 000)

6/30/10 balance previously reported in FY09-10 CAFR	$1,101
Prior period adjustments (2/28/12 report)	(3,795)
6/30/10 balance restated	(2,694)
Net annual activity for FY10-11 previously reported	(379)
Net change in FY10-11 activity (2/28/12 report)	(3,480)
6/30/11 balance restated	(6,553)
Net annual activity for FY11-12 previously reported	-
Net change in FY11-12 activity (2/28/12 report)	(8,653)
6/30/12 balance before solutions	(15,206)
Council-adopted solutions (2/28/12)	15,206
6/30/12 balance after solutions	-

Structural Imbalance Continues and May Worsen

No one of these factors is the sole cause of the City's current financial crisis. Rather, the cumulative effect of all these factors created a financial environment which the City will be unable to address over time through growth. Past commitments have driven expenditures rapidly higher at the same time as the revenue gap has widened significantly. If ongoing revenues from 2009 grew at only 3% annually, the City would have $208.5 million in General Fund revenue in FY 2012-13, instead of the $154.9 million we expect, a gap of $53.5 million. Meanwhile, retiree health costs are projected to increase by 115% over the next 10 years, and pension costs by 94%. Public safety grants are ending, forcing the General Fund to absorb $6 million of costs by FY 2014-15. The City is being challenged through lawsuits that could force up to $12.5 million in back pay and add back over $18 million annually in personnel expense.

The City is ending the upcoming fiscal year with no reserves and faces a continuing structural imbalance between revenues and expenses of major proportions.

ACTIONS TO BALANCE BUDGET AND REDUCE COSTS

The City has already undertaken significant actions to balance the budget over the last two fiscal years, primarily through two strategies:

- The first included negotiating or imposing reductions in employee costs, which was intended to maintain as much staff as possible employed to provide critical, albeit reduced, services to the public.

- The second has been to eliminate many City positions which did result in significant reductions to service levels provided to the community. Both FY10-11 and FY11-12 City budgets contained a Plan A (more staffing/service cuts than labor cost cuts) versus a Plan B (more labor cost cuts than staffing/service cuts). Both budgets were ultimately balanced by a combination of the two. The FY 11-12 budget was balanced with $25 million in compensation reductions and $12 million in staffing reductions, mainly in the Fire Department.

1) Labor Cost Reductions

The City's first steps to reduce pay and benefit costs started in 2008 with the imposition of furloughs. In the following years the City offered early retirement incentives, and as the fiscal situation grew more desperate, furlough hours grew, and planned salary increases were eliminated. In 2011 a large number of compensation reductions occurred which included cost-saving modifications to the medical plans and the City capped its contributions to employee medical premiums. Also the "Add Pays" such as longevity, educational incentive, and master office pay were eliminated or reduced, and employees paid higher contributions (7-9%) to CalPERS.

These cuts are governed by a 10-point "Action Plan for Fiscal Sustainability" adopted by the City Council on June 22, 2010. This policy guided subsequent labor negotiations, and consists of the following elements:

1. Reduce or eliminate "additional pay" categories; authorize only when absolutely essential to performing special job tasks; ensure all compensation packages are fully, accurately and simply costed.
2. No side letters or past practices will be binding unless approved in public by the City Council.
3. No wage adjustments will be based on automatic inflators or formulae.
4. Strive to have all labor agreements expire at same time, particularly with public safety unions.
5. Employees to make reasonable contributions to health coverage.
6. Health contributions to be based on lowest cost plan made available by the City.
7. Employees to pay the entire employee CalPERS contribution and cost-sharing agreements shall be negotiated to share the burden of City pension costs; a "second tier" pension benefit shall be negotiated for new hires.
8. Vacation use work rules to minimize overtime, limit accumulation of hours, and restrict cash-outs.

9. Labor contacts to avoid inflexible staffing minimums and restrictions on management rights.
10. Bring overtime practice back in line with FLSA, minimize unneeded overtime.

The following highlights some of the changes either negotiated or imposed over the past four fiscal years for three of the largest employee groups:

Stockton City Employees Association: 2011 changes imposed via temporary imposed actions and subject to litigation challenges

- Furlough starting at 80 hours in FY08-09, increased to 96 hours in FY09-10, FY10-11 and FY11-12
- Forfeited COLAs of 2.5% at 7/1/10 and 2.5% at 7/1/11
- Employees pay Employee Share of CalPERS contribution, or 7% starting 8/1/11
- Modifications to medical plan over past two years, including higher deductibles, medical design changes from 100% to 80%, and City share of premium capped at fixed dollar amount in 2011.
- Temporary elimination of longevity 2.5% Add pay and 3% education incentive pay (2011)

Firefighters Union and Fire Management

- Elimination of COLAs: 3.68% for 7/1/08, 8.5% for 7/1/09, no COLAs through 6/30/12 (4.5-8.5%)
- Creation of second PERS tier for new hires (3%@55 in 2011)
- Employees pay PERS share of 9% starting 8/1/11
- Limits on numbers of staff qualifying for paramedic pay if not operationally required to act in that capacity (FY09-10)
- Eliminated minimum staffing requirements (FY11-12)
- Uniform allowance suspended in 2009, 50% reduction for 2010
- Modifications to medical plan over past two years, including higher deductibles, medical design changes from 100% to 80%, and City share of premium capped at fixed dollar amount
- Reduction of sick days from 15 to 12, reduction in vacation leave accruals, change in sick leave cash out at retirement, change in leave practice to reduce overtime in 2011
- Eliminate longevity vacation benefits 2011
- Eliminate tiller pay and unassigned paramedic pay for future employees 2011
- Eliminated longevity pay and grandfathered in current incumbents with a 2.5% reduction in longevity pay in 2011

- Eliminated educational incentive benefit of 3% effective August 2011
- Agreed to waive all back pay damages from 2010 emergency actions

Stockton Police Officers Association: 2010 and 2011 changes imposed via Emergency temporary imposed actions and subject to litigation challenge

- 6.5% total furlough deduction for FY09-10, reduced to 3% starting FY10-11, FY11-12
- Waive 2.5% COLA for 7/1/09
- Reduce uniform allowance by 50% (FY09-10); COLA's in 2010 and 2011 temporarily suspended
- Suspension of 2% City deferred comp contribution and 2% City retiree medical savings plan contribution (FY10-11 and FY11-12)
- Temporary suspension of master officer 5% pay and 3% education incentive pay 2011
- Temporary suspension of longevity pay for new hires, temporary 5% reduction in Longevity Pay for incumbent employees 2011
- Modifications to medical plan over past two years, including higher deductibles, medical design changes from 100% to 80%, and City share of premium capped at fixed dollar amount
- Employees pay PERS share of 9% starting 8/1/11

2) Staffing Reductions

In addition to significant reductions in labor costs, the City has been forced to make severe reductions in staffing and services.

Table 7 below shows the major declines in City staffing levels since FY08-09, which include these overall staffing reductions:

- General Fund sworn police officers: 25% *(Note:* Another 20 officers are paid by grants that expire at the end of FY11-12. The City must retain these positions for three years and the resulting funding gap is part of the General Fund shortfall.)
- General Fund fire staff: 30%
- General Fund Non-Safety staff: 43%
- Total City staff 25%

Table 7. City of Stockton Personnel Changes by Fund

City of Stockton Personnel by Fund

General Fund	08-09	09-10	10-11	11-12	Chng frm 08-09	Percent Change
Police-sworn	398	312	292	300	(98)	-25%
Police-non sworn	232	207	199	185	(47)	-20%
Fire	253	265	226	177	(76)	-30%
Subtotal Safety	883	784	717	662	(221)	-25%
Public Works	163	78	59	62	(101)	-62%
Library	105	69	57	57	(48)	-46%
Recreation	46	32	27	26	(20)	-43%
Administration	157	123	125	123	(34)	-22%
Subtotal Non-Safety	471	302	268	268	(203)	-43%
Total General Fund	1,354	1,086	985	930	(424)	-31%
Other Funds						
Police-Grants	6	17	31	25	19	317%
Police-Measure W	28	23	20	20	(8)	-29%
Fire-Measure W	40	22	21	21	(19)	-48%
Fire-Emergency Communica	17	-	-	-	(17)	-100%
Development Services	98	53	50	42	(56)	-57%
Street Maint/Gas Tax*	24	65	66	64	40	167%
Other Special Rev/Districts	48	46	37	28	(20)	-42%
Enterprises	171	189	199	208	37	22%
Internal Service	100	83	84	82	(18)	-18%
Total Other Funds	532	498	508	490	(42)	-8%
Total All Funds	1,886	1,584	1,493	1,420	(466)	-25%

*Gas Tax absorbed employees shifted from General Fund

SERVICE REDUCTIONS

About 68% of General Fund expenditures are allocated to labor and most are for public safety (75.7% in FY 2011-12). As a result, Stockton has had to make reductions in police and fire services despite the fact that the City ranks low in median income and high in total crime rate.

The following factors highlight why the impact of these public safety reductions are more critical in Stockton than most other California cities:

- The City of Stockton has the highest total crime rate per capita for any city with a population of 100,000 or greater in California.
- While violent crime rates dropped 5.5% nationwide in 2010, they were up in Stockton, which ranked 10th in the U.S. with 13.81 violent crimes per 1,000 residents.

- Despite this high service demand, budget cuts have reduced sworn police staffing from 1.52 per 1,000 residents in 2005 to 1.16 currently, the lowest ratio for cities over 250,000 population.
- The City has a lower level of sworn police staffing than has been recommended by industry standards or which is observed in other similar service settings. The 2006 Braga study recommended sworn officer staffing levels at 2.0 per 1,000 residents, which would require the addition of 248 police officers. At $140,000 per position and assuming a minimal 30% overhead in support staff, equipment and supplies, this would cost $48 million annually.
- The Fire Department responded to more than twice the number of fire calls of Fresno, Sacramento, or Oakland, each of which have a population of 50,000 -150,000 more in total population served and have more than twice the on-duty staffing.
- The Fire Department responded to 483 working structure fires last year, compared to 599 in the City of Fresno, 273 in the City of Oakland and 444 in the City of Sacramento. The City of Stockton has fewer than half the fire sworn staffing of the Cities of Fresno, Oakland, and Sacramento.
- AMR (the paramedic service provider in Stockton) exceeded its maximum emergency response time every 4 hours in the City of Stockton, compared to exceeding that response time criteria only every 70 plus hours in the cities of Lodi and Tracy.

Functional Service Reductions to Date

The following describes the service reductions and their impacts on the community that the City has been required to impose over the last two to three years.

Police Service Impacts: Low staffing levels have had the following significant impacts on safety for the community:

- Activation of a "condition blue" during times of peak activity where residents must use on-line or telephone reporting and depending on the type of report, the department may only respond to crimes-in-progress.
- Elimination of the School Resource Officer Program which puts the burden on school districts to provide funding for a law enforcement presence on campus. This has contributed to a rise in juvenile crime and gang membership.
- Reduction in gang and drug focused missions to only those funded with grants or outside agencies. Gang-related homicides have increased 525% in three years since the Gang Street Enforcement Team (GSET) was eliminated.
- Elimination of the Narcotics Enforcement Team resulted in an increase of drug trafficking within the City and also reduces the funds received through disposition of asset forfeiture proceeds. These proceeds are used to fund capital equipment and

other one-time needs such as tactical gear, weapons and protective equipment critical to equipping sworn staff.

- Significant cutbacks to Proactive Policing Strategy has erased all progress made in the mid-2000s, returning the city to the high crime rates and overwhelming perception that the city is no longer a safe place to live, work or raise a family. A limited Proactive Policing Strategy is employed only on a case-by-case basis.
- Elimination of Police equestrian program and Downtown Bike Patrol, except by contract, has reduced the visible presence of law enforcement in the downtown core and at events. As a result, vagrants are returning to the downtown and several purse and jewelry snatchings have occurred. When the patrols were in effect, virtually no crimes of this nature were committed downtown, especially in broad daylight.
- Reduction of Community Service Officers has severely limited the ability of the Police Department to attend community meetings and respond to non-emergency accidents and calls for service including traffic control and parking enforcement (which has also reduced traffic violation revenue).
- Elimination of security camera monitoring has negatively impacted investigations as valuable "eyes in the sky" are no longer able to spot crimes in progress or follow pursuits in downtown and 66 other target areas in Stockton. There are also no assigned camera room personnel to download recorded camera footage. Note: As this goes to print, the Council just approved two retired officers to operate a fraction of the cameras starting in June. However, this is not specifically budgeted.

Fire Service Impacts: Sworn staffing has been reduced from 225 total sworn positions at the beginning of FY10-11 to the current level of 181 for a total reduction of 54 positions, a reduction of nearly 32% in the past 24 months. Staffing on each piece of equipment has been reduced by one person per company, with truck companies currently staffed at four persons, and engine companies staffed with three personnel. In addition, one fire station and one engine company have closed due to the reduced staffing plan.

These reductions have had the following major service impacts on the community:

- Reduction in the number of trucks assigned in the northern half of the City, which increases the response time for a second truck company, when required, on all structure fires. This results in delays in the fundamental execution of certain truck assignments on working structure fires, such as ventilation and the establishment of a Rapid Intervention Crew (RIC). The RIC is a required element of a safe interior fire attack, as required by OSHA, when an immediate rescue is not present. Often referred to as the 'two-in, two-out' rule, a firefighting crew should not enter an environment that is hazardous to life and health, without a two person crew in a position to rescue the interior crew. A fourth engine company has been assigned to first alarm assignments for structure fires for the initial manpower to more effectively initiate essential tasks before the fires get too large.

- Increase in response times for engines located outside of the Fire Station One area by 1-3 minutes on average and an average increase in 5 to 7 minutes to residents and businesses within in the Fire Station One area. Even longer response times may be incurred as available engine or truck companies may be coming from a further distance due to the significant and ongoing emergency response load in the Fire Department's response area generally.

Planning and Development Services Impacts: The steep decline in building activity forced the City's Development Services Fund to eliminate 57% of its staff, with 45 of the 56 positions cut in FY09-10. The reduction in development activity and the inability of the General Fund to provide financial support for modern permit issuance (the current system is 20 years old) and property record systems results in significant customer service impacts, critical to the City's economic development objectives. These include:

- Increased Permit Center wait times
- Lack of online land use and building permit research
- Inability to submit applications or plans electronically

Public Infrastructure and City Facility Impacts: The City has been unable to dedicate sufficient dollars of regular and periodic maintenance of the city's public infrastructure or facilities for many years. The General Fund proposes to contribute just $1,575,000 in FY12-13 to capital improvements, with no funding programmed in the succeeding four years of the proposed 5-year Capital Improvement Program.

While not a complete list, the following illustrates the magnitude of the deferred maintenance and capital investment:

- *Vehicles*: The replacement backlog is $8.5 million, with 172 units past their useful life.
- *Trees:* About $3.1 million is needed to bring the urban forest up to an acceptable standard, with an additional $3.5 million is needed annually to provide proper maintenance.
- *Roadways*: Approximately $10 million per year is needed to maintain the City's roadways in their current condition; the City's current street maintenance program allocates only $2 million per year. The current condition can be quantified using a Pavement Condition Index (PCI) which provides an overall rating between 0 and 100 of the entire pavement in a community. The current PCI for Stockton is 66, which while in the middle of the fair range, will degrade 2 to 3 points per year. If the network is allowed to deteriorate, repairs become more expensive as cost effective maintenance strategies are no longer feasible.
- *Parks:* About $12 million would be required to bring play areas, park furnishings, irrigation systems, buildings, courts, ball fields, and flatwork up to a standard level, able to be maintained in the future.

- *City Facilities*: The proposed program to provide critically needed improvements to City Hall includes $7 million to replace the roof, replace the HVAC system, and update interior finishes. For a complete renovation, the cost is likely double that amount ($14 million). Other City facilities would require $6+ million to catch up on maintenance, not including about $7 million for roof repair alone.

Library Service Impacts: A significant reduction in operating resources has let to diminished customer services and literacy programs in City of Stockton libraries. Broad outcomes of such reductions include fewer public programs, fewer books and library materials available to the public and long wait times for materials that are available. Specific reductions in library services include:

- Reduction of open hours by 48% in City of Stockton libraries.
- Closure of the Fair Oaks library.
- Reduction of Mobile Library hours by 50%.
- Reduction in books and materials by 50% over the last six years, which severely impacts the ability to acquire new format materials, e.g., digital books.
- Suspension of Homework Center Grants offered to elementary and middle school students with low grade point averages and limited opportunities which put them at educational risk.

Community Program Service Impacts: As a result of the elimination of 15 full-time positions and an 80% reduction in part-time hours, Recreation programs have experienced significant service reductions including:

- Partial Closure of the McKinley Community Center in 2009. Most of the recreation programs were moved to other community centers, so residents have to travel further to participate in these recreation opportunities.
- Reduction in operating hours at all other community centers of 20%.
- Fewer recreational classes.
- Decrease in operational hours at the Pixie Woods amusement park and Oak Park Senior Center.
- Consolidation of After School Program (ASP) sites resulting in reduced programs for at-risk youth.

These service impacts have been required just to get the City to the point of a zero available fund balance at the end of the current fiscal year. Because of these actions, the City entered the AB 506 Mediation process with service levels that were already decidedly *below industry standards*, provided by a depleted work force which has incurred significant compensation reductions.

Possible Future Reductions

As part of the analysis leading up to the February 28, 2012 City Council action authorizing the commencement of the AB 506 Mediation process, City departments were asked to submit reduction plans to demonstrate the reductions that would have been necessary in order to balance the budget absent such an action. The scope and depth of the service impacts were severe and would have resulted in the elimination of essential community services, posing a safety risk to the community.

An average of 15% in department service reductions across the organization would be required to achieve $20 million in expenditure savings. While detailed in an attachment to the February 28 staff report, the following summarizes the scope of what would have been required and the impact of a 15% reduction in the areas of public safety and the city's infrastructure as these represent almost 80% of City expenditures.

Service Impacts If Further Police and Fire Future Reductions: A 15% reduction in public safety services (Police and Fire) would result in:

- Elimination of all 30 Community Services Officers, 64 sworn officers and a range of support staff in the Police Department. Police Officers would only be able to respond to the most serious violent crimes in progress. The number of cases investigated would be reduced to only those mandated and significantly lengthen the time to solve crimes. It would require near outright elimination of all special teams including Mobile Field Force. The department would be unable to provide basic traffic control for events or attend any neighborhood meetings. Animal Services and Graffiti Abatement would be eliminated. Significant reductions to records and telecommunications staff would result in dispatching delays and a reduction of public hours for customer service.
- Elimination of three fire engines and one fire truck, and the elimination of 41 sworn firefighter positions. The immediate impact would be extensive delays in response times that would, in most cases, exceed 10 minutes at a minimum due to simultaneous call volume and extensive response times. Call loads at periodic times during the day could make over half the City exceed the 4-minute response time, the current goal of department. Serious reduction in mandatory training required to maintain skill levels and excessive amounts of overtime to train on off-duty days due to emergency call workloads. Discontinuation of fire inspections currently conducted by suppression personnel putting the community and businesses at higher risk. Mandatory fire inspections would likely have to be conducted through additional staff or through overtime. An increase in an already high level of worker injuries due to increased call volumes.
- Increase in the contract and cost of AMR (paramedic services), if even possible, due to the need to augment emergency medical responses. The levels of emergency medical response in Stockton impacts local hospitals who occasionally have to close their emergency rooms due to an overload, which then results in tying up AMR resources who must augment hospital emergency room staff.

Impacts If Further Maintenance, Infrastructure and City Facilities Reductions: The FY 2011-12 General Fund allocation to Public Works was approximately $7.1 million. This funding is used for routine and reactive maintenance of parks, trees, and facilities. In the absence of a substantive capital maintenance program, the demand for routine maintenance will grow as infrastructure becomes older and prone to breakdown. Any further reductions will only hasten the deterioration resulting from deferred maintenance and require much larger investments in the future.

February 28, 2012 Actions Approved by the City Council

Notwithstanding all of the service and compensation reductions, and as a result of new staff thoroughly reviewing our accounting practices, the City was faced with a restated FY 2010-11 deficit of $6.5 million and a projected FY 2011-12 deficit of $8.7 million, which created a projected shortfall of $15.2 million in the General Fund as of June 30, 2012.

To address that shortfall, the City Council on February 28, 2012 approved multiple transfers of available funds from unrestricted sources and suspended debt payments from unrestricted funds for the balance of the current fiscal year. Almost all of these transfers were reserves accumulated by the affected programs for strategic reasons, such as equipment replacement. Despite having four months left in the fiscal year with no reserves, these actions were taken to avoid an uncontrolled insolvency or default.
The transfers made were as follows:

- Reallocate Library fund balance and cancel selected capital projects ($721,000)
- Draw Measure W reserves through additional staff allocations ($1.2 million)
- Reallocate the 400 E. Main operating reserves and amount appropriated for moving City Hall to that building (total $2.5 million)
- Reallocate Entertainment Venues fund balance ($570,000)
- Reallocate unencumbered General Capital Projects fund balance and cancel most if not all projects not yet in progress ($798,000)
- Reallocate $6.0 million in Internal Services Fund balances for Vehicles, Pension, Unemployment and LTD/Life Insurance
- Cancel and take back $1.3 million endowment from the Arts Commission
- Cancel debt service payments totaling $2.0 million due to be paid before 6/30/12, which constituted Events of Default on the part of the City.

In addition, the Council ratified actions taken by the City Manager under the fiscal emergency resolution to temporarily suspend annual vacation sellback, cash payoffs of vacation leave, and vacation leave, sick leave and holiday leave hours paid at separation to City employees.

Organization and Community at Risk

As discussed at the February 28, 2012 City Council meeting, our employees and the Stockton business and residential community who rely on City services have borne the entire brunt of budget restructuring efforts to date. As an organization, we are critically concerned about our ability to recruit and retain employees, who are relied upon to deliver even a basic level of service to a community that needs more than that to position itself for a sustainable future.

The City must now turn to other paths, entities and strategies to pursue relief and develop a sustainable course. The only alternative is more radical service reductions in public safety, which we believe would pose significant risk to the community. We believe material reductions in active employee compensation will harm the capacity of the City to provide services. Another option would be to ask for tax increases. Even if voters would approve such a proposal, it is too late to benefit FY 12-13 and we don't believe they should be asked to fix the entire problem. The City must first explore other alternatives, and get our fiscal house in order.

More importantly, as shown in the long-term budget forecast, the problems the City face are so severe that neither increasing taxes or cutting services, even if implemented aggressively, are enough to mitigate the situation and make Stockton a viable city. Focusing only on current revenues and expenditures avoids a large source of the problem – debt and other contractual liabilities – that can only be addressed through the AB 506 mediation process and/or chapter 9 bankruptcy proceedings.

AB 506 MEDIATION PROCESS

The AB 506 process (Government Code Sections 53760-53670.7), which became effective January 9, 2012, provides for a confidential neutral mediation process as a precondition to or in lieu of (if successful) filing a chapter 9 petition. The goal of AB 506 is to avoid bankruptcy court by achieving a negotiated solution to a city's financial challenges with the same parties that would otherwise be involved in a chapter 9 case. On February 28, 2012 the City Council approved entering into an AB 506 process. Ralph Mabey, a former bankruptcy judge, law professor and widely respected bankruptcy lawyer, was jointly selected by the City and the participants. The mediation process is underway.

The AB 506 process is an intense and complex one that is being used only by the Cities of Stockton and Mammoth Lakes. It includes a long list of interested parties with whom the City attempts to forge a successful restructuring process in a very compressed period of time that will need to generate a significant amount of savings. The AB 506 process requires a significant amount of coordination of staff, attorneys, consultants and outside parties, and generation of financial information and analysis.

The AB 506 mediation process is confidential pursuant to State law. Therefore the proposals to the interested parties for savings to the City's General Fund cannot be disclosed. The proposals

made are based on the City's critical need to make significant changes in the City's cost structure to move the City toward health and sustainability. To the extent the savings realized through AB 506 are less than the projected shortfall from the baseline budget with fiscal stabilization expenses, closing the remaining shortfall and re-establishing a reserve will require additional budget cuts or new revenues. However, further expense reductions will exacerbate the current level of service delivery insolvency.

REVENUE OPTIONS

Revenue increases, except in limited instances involving fees, require voter approval. A general tax requires a simple majority of the voters and a specific tax would require two-thirds of the voter's approval. Depending on the level and/or type of tax increase, deficits could be erased while maintaining current service levels, which are considered unacceptable by most of Stockton. A case could be made for higher tax increases to improve service levels, which will ultimately be needed to move Stockton forward. Our budget modeling indicates that an increase in the sales tax of .5% to the authorized local maximum of 1%, plus an increase in the Utility Users Tax by approximately 2% would be necessary for the City to approach minimum service level solvency.

However, obtaining approval for tax increases in the current environment may not be feasible due to the uncertain economy and until the community has confidence that the City has developed budget discipline with a sound fiscal sustainability plan in place. We believe the electorate would not support new taxes given our litigation risks and the costs of our current retiree health program. At a minimum, this will require restructuring of obligations pertaining to labor, retirees, debt and other contracts and claimants. Once the City of Vallejo got their fiscal house in order, their citizens just barely approved a general tax increase.

CONTINGENCY OPTION: AUTHORIZATION TO SEEK CHAPTER 9 BANKRUPTUCY, IF THE AB 506 MEDIATION PROCESS DOES NOT RESOLVE THE CITY'S FINANCIAL CHALLENGES

Because the City will be cash insolvent on the first day of the next fiscal year (July 1, 2012) absent severe cuts risking the health, safety and welfare of residents or a successful AB 506 mediation, staff recommends that the City Council approve a resolution now authorizing the City Manager to file a petition seeking protection under chapter 9 of the United States Bankruptcy Code if the mediation process does not cure the City's insolvency on or before June 25, 2012. This delegated authority is similar to an advanced health care directive or what you might do when we are in the midst of labor negotiations. You might authorize the imposition of our last best offer into the future, but you also direct staff to continue negotiations. It's only when negotiations fail, do I have the authority to implement the bankruptcy step. This authority will not be exercised unless certain things take place. We will continue to negotiate with our creditors with the goal of avoiding a chapter 9 filing.

The General Fund is expected to deplete its available reserves as of June 30, 2012. No viable General Fund budget has been identified for the fiscal year beginning July 1, 2012, within the bounds of the City's existing contractual commitments. Absent appropriations from a State constitutional and City charter requirement for a balanced budget, the General Fund will not have the legal authority to continue services after July 1.

Purpose of Chapter 9 Bankruptcy

Chapter 9 is a remedy of last resort for cities that, after attempting to do so in good faith, cannot pay or renegotiate their debts as they come due. Just as with an individual (chapter 7 bankruptcy) or a corporation (chapter 11) which owes more than it can pay, chapter 9 provides a city with breathing room by giving it relief from its creditors until it can adjust its debts through a comprehensive plan that must be approved by the federal bankruptcy court. Bankruptcy will not create new revenue. However, it will allow the City to take actions contrary to existing contractual obligations for the purpose of allowing continued General Fund operations.

A chapter 9 filing, if approved, would allow the City to do the following:

- Enable the City to continue to operate and provide services to its residents by freezing certain pre-filing debts until a plan of adjustment can be negotiated and approved.

- Enjoin enforcement actions against the City by its creditors, whose current obligations cannot be paid due to the City's inadequate resources.

- Provide the City and its creditor constituencies time to negotiate settlements which will provide long-term stability.

Background regarding chapter 9 bankruptcy is provided in Attachment A, which is reprinted from a publication entitled "Bankruptcy Basics" on the website maintained by the Administrative Office of the United States Courts, and may be found at www.uscourts.gov. The mechanics of a bankruptcy filing are fairly straightforward. The City will file a petition requesting an order from the bankruptcy court affirming that it is eligible for chapter 9 relief, i.e., that it is truly bankrupt and should be allowed to take advantage of the protections of the Bankruptcy Code. This petition will be supported by sworn declarations by City personnel, which will serve as evidence of the City's eligibility.

Stockton would not be the first California city to seek chapter 9 protection. Approximately four years ago, the City of Vallejo filed a chapter 9 petition before the start of FY08-09, when it otherwise would have been insolvent. Before Vallejo, the need for chapter 9 relief usually arose from a one-time financial catastrophe—a large legal judgment against a small city, for example. Vallejo was the first major California city to file a bankruptcy case because it was become *structurally* insolvent, squeezed by unsustainable expenses and stalled revenues to the point that it burned through all its reserves and its budget could not be balanced without chapter 9 relief.

Vallejo's experience starkly highlights both the positive and negative aspects of a bankruptcy filing, and offers lessons for Stockton. On the positive side, its chapter 9 case enabled Vallejo to significantly restructure labor and debt contracts that were otherwise unsustainable. It reduced long term obligations by over one hundred million dollars. Several key legal issues of first impression were decided in Vallejo's favor, decisions which will provide helpful guidance to Stockton. On the other hand, Vallejo's bankruptcy case was long and very expensive, in large part because litigation of the many new issues involved consumed millions of dollars. Additionally, Vallejo's bankruptcy was only one case; it did not conclusively determine every aspect of chapter 9 law. A different bankruptcy judge might either decide some issues raised in Vallejo differently or decide novel legal issues against the City. Further, a chapter 9 filing likely will be expensive. However, Stockton's debilitating long term obligations approach $1 billion. Relief from such obligations can greatly improve the City's viability. Furthermore, even if the AB 506 fails to produce a global settlement, the amount of time and data shared with our creditors will hopefully put us ahead of Vallejo (time in bankruptcy) if we were to make a chapter 9 filing. Despite these risks, absent some alternative resolution to its fiscal crisis, the City's current financial condition may, if AB 506 is not successful in sufficiently restructuring the City's obligations, require the filing of a bankruptcy petition because the City will have no other alternative.

State Auditor's Report

As noted above, five teams of auditors from the State Controller's Office have projects underway examining Gas Tax reporting, Redevelopment Agency issues, Federal funds passed through the State and State grants and revenues, mandated state program costs for domestic violence reporting and internal and administrative controls. Periods under examination range from Fiscal 2001 through Fiscal 2010. We have been aware that there have been serious issues with financial reporting and management since the summer of 2011 and have committed countless hours to identifying and remedying problems. We are committed to addressing problems identified by any source as soon as possible.

Some observers appear to believe that the results of the State Controller's audit (or our independent audit) will produce reports that indicate that additional resources will be found to address the resource constraints that have made the City insolvent. However, the State Controller's audit focuses on conditions and reporting that ranges from two to eleven years old. Their audit will not result in new resources being available to solve the City's General Fund problem going forward.

The preliminary results of our own independent CPA's audit examination have not resulted in findings that would increase available unrestricted fund balances. Insolvency is a problem now and depends on our forecasts of future results. The grave situation facing the City now and next year leave no doubt about the City's solvency. The hard work and analysis of our staff indicate that there are no undiscovered or undisclosed pools of resources that could address the City's ongoing structural deficit. We expect improved revenues this year to offset unexpected costs through the end of this year but those resources are far short of the

accumulated obligation resulting from imposed compensation concessions and bond defaults. We can project a small positive unrestricted available fund balance only if the liabilities associated with existing defaults and impositions are ignored.

City Operations during a Chapter 9 Bankruptcy Case (Pendency Plan)

Even though filing a chapter 9 petition would place the City within the jurisdiction of a federal court, the bankruptcy court lacks the authority to interfere with "the political or governmental powers" of the City of "any of the property or revenues" of the City. This limitation on the court's power is unique to chapter 9 cases. It means that the City retains autonomy over its finances and operations throughout the bankruptcy case.

The bankruptcy court may decide issues such as whether the City is eligible for bankruptcy and whether its plan of adjustment (exit plan) satisfies the requirements of the Bankruptcy Code, but it cannot interfere with the City's day-to-day operations. Instead, the City will continue to operate and will deliver what services it can to its residents within available resources. Since it is by definition insolvent, it must adopt a budget (referred to as a Pendency Plan in chapter 9) that will serve as its day-to-day roadmap until the bankruptcy court approves the long-term plan of adjustment which will comprehensively restructure the City's debts and set the City on the path to solvency. Staff is preparing a proposed Pendency Plan, and anticipates that it will be brought before the City Council later this month before a potential chapter 9 filing, if AB 506 is unsuccessful.

CONCLUSION

The City's financial situation is serious and all of the steps being taken now – including the AB 506 process – are essential. However, the City must plan for a contingency in the event that AB 506 is unsuccessful. That contingency is filing chapter 9. We respectfully recommend that the City authorize the contingency option of filing a chapter 9 case in light of the unacceptability of further, significant service reductions if the AB 506 process fails to result in sufficient restructuring of obligations to render the City solvent.

Respectfully Submitted,

for BOB DEIS
CITY MANAGER

Attachment A - Bankruptcy Basics

ATTACHMENT A: Bankruptcy Basics: United States Courts

http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics/Chapter9.aspx

Municipality Bankruptcy

The chapter of the Bankruptcy Code providing for reorganization of municipalities (which includes cities and towns, as well as villages, counties, taxing districts, municipal utilities, and school districts).

The first municipal bankruptcy legislation was enacted in 1934 during the Great Depression. Pub. L. No. 251, 48 Stat. 798 (1934). Although Congress took care to draft the legislation so as not to interfere with the sovereign powers of the states guaranteed by the Tenth Amendment to the Constitution, the Supreme Court held the 1934 Act unconstitutional as an improper interference with the sovereignty of the states. *Ashton v. Cameron County Water Improvement Dist. No. 1*, 298 U.S. 513, 532 (1936). Congress enacted a revised Municipal Bankruptcy Act in 1937, Pub. L. No. 302, 50 Stat. 653 (1937), which was upheld by the Supreme Court. *United States v. Bekins*, 304 U.S. 27, 54 (1938). The law has been amended several times since 1937. In the more than 60 years since Congress established a federal mechanism for the resolution of municipal debts, there have been fewer than 500 municipal bankruptcy petitions filed. Although chapter 9 cases are rare, a filing by a large municipality can— like the 1994 filing by Orange County, California—involve many millions of dollars in municipal debt.

Purpose of Municipal Bankruptcy

The purpose of chapter 9 is to provide a financially-distressed municipality protection from its creditors while it develops and negotiates a plan for adjusting its debts. Reorganization of the debts of a municipality is typically accomplished either by extending debt maturities, reducing the amount of principal or interest, or refinancing the debt by obtaining a new loan.

Although similar to other chapters in some respects, chapter 9 is significantly different in that there is no provision in the law for liquidation of the assets of the municipality and distribution of the proceeds to creditors. Such a liquidation or dissolution would undoubtedly violate the Tenth Amendment to the Constitution and the reservation to the states of sovereignty over their internal affairs. Indeed, due to the severe limitations placed upon the power of the bankruptcy court in chapter 9 cases (required by the Tenth Amendment and the Supreme Court's decisions in cases upholding municipal bankruptcy legislation), the bankruptcy court generally is not as active in managing a municipal bankruptcy case as it is in corporate reorganizations under chapter 11. The functions of the bankruptcy court in chapter 9 cases are generally limited to approving the petition (if the debtor is eligible), confirming a plan of debt adjustment, and ensuring implementation of the plan. As a practical matter, however, the municipality may consent to have the court exercise jurisdiction in many of the traditional areas of court oversight in bankruptcy, in order to obtain the protection of court orders and eliminate the need for multiple forums to decide issues.

Eligibility

Only a "municipality" may file for relief under chapter 9. 11 U.S.C. § 109(c). The term "municipality" is defined in the Bankruptcy Code as a "political subdivision or public agency or instrumentality of a State." 11 U.S.C. § 101(40). The definition is broad enough to include cities, counties, townships, school districts, and public improvement districts. It also includes revenue-producing bodies that provide services which are paid for by users rather than by general taxes, such as bridge authorities, highway authorities, and gas authorities.

Section 109(c) of the Bankruptcy Codes sets forth four additional eligibility requirements for chapter 9:

1. the municipality must be specifically authorized to be a debtor by state law or by a governmental officer or organization empowered by State law to authorize the municipality to be a debtor;
2. the municipality must be insolvent, as defined in 11 U.S.C. § 101(32)(C);
3. the municipality must desire to effect a plan to adjust its debts; and
4. the municipality must either:

    - obtain the agreement of creditors holding at least a majority in amount of the claims of each class that the debtor intends to impair under a plan in a case under chapter 9;
    - negotiate in good faith with creditors and fail to obtain the agreement of creditors holding at least a majority in amount of the claims of each class that the debtor intends to impair under a plan;
    - be unable to negotiate with creditors because such negotiation is impracticable; or
    - reasonably believe that a creditor may attempt to obtain a preference.

Commencement of the Case

Municipalities must voluntarily seek protection under the Bankruptcy Code. 11 U.S.C. §§ 303, 901(a). They may file a petition only under chapter 9. A case under chapter 9 concerning an unincorporated tax or special assessment district that does not have its own officials is commenced by the filing of a voluntary "petition under this chapter by such district's governing authority or the board or body having authority to levy taxes or assessments to meet the obligations of such district." 11 U.S.C. § 921(a).

A municipal debtor must file a list of creditors. 11 U.S.C. § 924. Normally, the debtor files the list of creditors with the petition. However, the bankruptcy court has discretion to fix a different time if the debtor is unable to prepare the list of creditors in the form and with the detail required by the Bankruptcy Rules at the time of filing. Fed. R. Bankr. P. 1007.

Assignment of Case to a Bankruptcy Judge

One significant difference between chapter 9 cases and cases filed under other chapters is that the clerk of court does not automatically assign the case to a particular judge. "The chief judge of the court of appeals for the circuit embracing the district in which the case is commenced [designates] the bankruptcy judge to conduct the case." 11 U.S.C. § 921(b). This provision was designed to remove politics from the issue of which judge will preside over the chapter 9 case of a major municipality and to ensure that a municipal case will be handled by a judge who has the time and capability of doing so.

Notice of Case/ Objections/ Order for Relief

The Bankruptcy Code requires that notice be given of the commencement of the case and the order for relief. 11 U.S.C. § 923. The Bankruptcy Rules provide that the clerk, or such other person as the court may direct, is to give notice. Fed. R. Bankr. P. 2002(f). The notice must also be published "at least once a week for three successive weeks in at least one newspaper of general circulation published within the district in which the case is commenced, and in such other newspaper having a general circulation among bond dealers and bondholders as the court designates." 11 U.S.C. § 923. The court typically enters an order designating who is to give and receive notice by mail and identifying the newspapers in which the additional notice is to be published. Fed. R. Bankr. P. 9007, 9008.

The Bankruptcy Code permits objections to the petition. 11 U.S.C. § 921(c). Typically, objections concern issues like whether negotiations have been conducted in good faith, whether the state has authorized the municipality to file, and whether the petition was filed in good faith. If an objection to the petition is filed, the court must hold a hearing on the objection. Id. The court may dismiss a petition if it determines that the debtor did not file the petition in good faith or that the petition does not meet the requirements of title 11. Id.

If the petition is not dismissed upon an objection, the Bankruptcy Code requires the court to order relief, allowing the case to proceed under chapter 9. 11 U.S.C. § 921(d).

Automatic Stay

The automatic stay of section 362 of the Bankruptcy Code is applicable in chapter 9 cases. 11 U.S.C. §§ 362(a), 901(a). The stay operates to stop all collection actions against the debtor and its property upon the filing of the petition. Additional automatic stay provisions are applicable in chapter 9 that prohibit actions against officers and inhabitants of the debtor if the action seeks to enforce a claim against the debtor. 11 U.S.C. § 922(a). Thus, the stay prohibits a creditor from bringing a mandamus action against an officer of a municipality on account of a prepetition debt. It also prohibits a creditor from bringing an action against an inhabitant of the debtor to enforce a lien on or arising out of taxes or assessments owed to the debtor.

Section 922(d) of title 11 limits the applicability of the stay. Under that section, a chapter 9 petition does not operate to stay application of pledged special revenues to payment of indebtedness secured by such revenues. Thus, an indenture trustee or other paying agent may apply pledged funds to payments coming due or distribute the pledged funds to bondholders without violating the automatic stay.

Proofs of Claim

In a chapter 9 case, the court fixes the time within which proofs of claim or interest may be filed. Fed. R. Bankr. P. 3003(c)(3). Many creditors may not be required to file a proof of claim in a chapter 9 case. For example, a proof of claim is deemed filed if it appears on the list of creditors filed by the debtor, unless the debt is listed as disputed, contingent, or unliquidated. 11 U.S.C. § 925. Thus, a creditor must file a proof of claim if the creditor's claim appears on the list of creditors as disputed, contingent, or unliquidated.

Court's Limited Power

Sections 903 and 904 of the Bankruptcy Code are designed to recognize the court's limited power over operations of the debtor.

Section 904 limits the power of the bankruptcy court to "interfere with – (1) any of the political or governmental powers of the debtor; (2) any of the property or revenues of the debtor; or (3) the debtor's use or enjoyment of any income-producing property" unless the debtor consents or the plan so provides. The provision makes it clear that the debtor's day-to-day activities are not subject to court approval and that the debtor may borrow money without court authority. In addition, the court cannot appoint a trustee (except for limited purposes specified in 11 U.S.C. § 926(a)) and cannot convert the case to a liquidation proceeding.

The court also cannot interfere with the operations of the debtor or with the debtor's use of its property and revenues. This is due, at least in part, to the fact that in a chapter 9 case, there is no property of the estate and thus no estate to administer. 11 U.S.C. § 902(1). Moreover, a chapter 9 debtor may employ professionals without court approval, and the only court review of fees is in the context of plan confirmation, when the court determines the reasonableness of the fees.

The restrictions imposed by 11 U.S.C. § 904 are necessary to ensure the constitutionality of chapter 9 and to avoid the possibility that the court might substitute its control over the political or governmental affairs or property of the debtor for that of the state and the elected officials of the municipality.

Similarly, 11 U.S.C. § 903 states that "chapter [9] does not limit or impair the power of a State to control, by legislation or otherwise, a municipality of or in such State in the exercise of the political or governmental powers of the municipality, including expenditures for such exercise," with two exceptions – a state law prescribing a method of composition of municipal debt does not bind any non-consenting creditor, nor does any judgment entered under such state law bind a nonconsenting creditor.

Role of the U.S. trustee/bankruptcy administrator

In a chapter 9 case, the role of the U.S. trustee (or the bankruptcy administrator in North Carolina or Alabama) (1) is typically more limited than in chapter 11 cases. Although the U.S. trustee appoints a creditors' committee, the U.S. trustee does not examine the debtor at a meeting of creditors (there is no meeting of creditors), does not have the authority to move for appointment of a trustee or examiner or for conversion of the case, and does not supervise the

administration of the case. Further, the U.S. trustee does not monitor the financial operations of the debtor or review the fees of professionals retained in the case.

Role of Creditors

The role of creditors is more limited in chapter 9 than in other cases. There is no first meeting of creditors, and creditors may not propose competing plans. If certain requirements are met, the debtor's plan is binding on dissenting creditors. The chapter 9 debtor has more freedom to operate without court-imposed restrictions.

In each chapter 9 case, however, there is a creditors' committee that has powers and duties that are very similar to those of a committee in a chapter 11 case. These powers and duties include selecting and authorizing the employment of one or more attorneys, accountants, or other agents to represent the committee; consulting with the debtor concerning administration of the case; investigating the acts, conduct, assets, liabilities, and financial condition of the debtor; participating in the formulation of a plan; and performing such other services as are in the interest of those represented. 11 U.S.C. §§ 901(a), 1103.

Intervention/Right of Others to be Heard

When cities or counties file for relief under chapter 9, there may be a great deal of interest in the case from entities wanting to appear and be heard. The Bankruptcy Rules provide that "[t]he Secretary of the Treasury of the United States may, or if requested by the court shall, intervene in a chapter 9 case." Fed. R. Bankr. P. 2018(c). Further, "[r]epresentatives of the state in which the debtor is located may intervene in a chapter 9 case." Id. In addition, the Bankruptcy Code permits the Securities and Exchange Commission to appear and be heard on any issue and gives parties in interest the right to appear and be heard on any issue in a case. 11 U.S.C. §§ 901(a), 1109. Parties in interest include municipal employees, local residents, non-resident owners of real property, special tax payers, securities firms, and local banks.

Powers of the Debtor

Due to statutory limitations placed upon the power of the court in a municipal debt adjustment proceeding, the court is far less involved in the conduct of a municipal bankruptcy case (and in the operation of the municipal entity) while the debtor's financial affairs are undergoing reorganization. The municipal debtor has broad powers to use its property, raise taxes, and make expenditures as it sees fit. It is also permitted to adjust burdensome non-debt contractual relationships under the power to reject executory contracts and unexpired leases, subject to court approval, and it has the same avoiding powers as other debtors. Municipalities may also reject collective bargaining agreements and retiree benefit plans without going through the usual procedures required in chapter 11 cases.

A municipality has authority to borrow money during a chapter 9 case as an administrative expense. 11 U.S.C. §§ 364, 901(a). This ability is important to the survival of a municipality that has exhausted all other resources. A chapter 9 municipality has the same power to obtain credit as it does outside of bankruptcy. The court does not have supervisory authority over the amount of debt the municipality incurs in its operation. The municipality may employ

professionals without court approval, and the professional fees incurred are reviewed only within the context of plan confirmation.

Dismissal

As previously noted, the court may dismiss a chapter 9 petition, after notice and a hearing, if it concludes the debtor did not file the petition in good faith or if the petition does not meet the requirements of chapter 9. 11 U.S.C. § 921(c). The court may also dismiss the petition for cause, such as for lack of prosecution, unreasonable delay by the debtor that is prejudicial to creditors, failure to propose or confirm a plan within the time fixed by the court, material default by the debtor under a confirmed plan, or termination of a confirmed plan by reason of the occurrence of a condition specified in the plan. 11 U.S.C. § 930.

Treatment of Bondholders and Other Lenders

Different types of bonds receive different treatment in municipal bankruptcy cases. General obligation bonds are treated as general debt in the chapter 9 case. The municipality is not required to make payments of either principal or interest on account of such bonds during the case. The obligations created by general obligation bonds are subject to negotiation and possible restructuring under the plan of adjustment.

Special revenue bonds, by contrast, will continue to be secured and serviced during the pendency of the chapter 9 case through continuing application and payment of ongoing special revenues. 11 U.S.C. § 928. Holders of special revenue bonds can expect to receive payment on such bonds during the chapter 9 case if special revenues are available. The application of pledged special revenues to indebtedness secured by such revenues is not stayed as long as the pledge is consistent with 11 U.S.C. § 928 [§ 922(d) erroneously refers to § 927 rather than § 928], which ensures that a lien of special revenues is subordinate to the operating expenses of the project or system from which the revenues are derived. 11 U.S.C. § 922(d).

Bondholders generally do not have to worry about the threat of preference liability with respect to any prepetition payments on account of bonds or notes, whether special revenue or general obligations. Any transfer of the municipal debtor's property to a noteholder or bondholder on account of a note or bond cannot be avoided as a preference, i.e., as an unauthorized payment to a creditor made while the debtor was insolvent. 11 U.S.C. § 926(b).

Plan for Adjustment of Debts

The Bankruptcy Code provides that the debtor must file a plan. 11 U.S.C. § 941. The plan must be filed with the petition or at such later time as the court fixes. There is no provision in chapter 9 allowing creditors or other parties in interest to file a plan. This limitation is required by the Supreme Court's pronouncements in *Ashton, 298 U.S. at 528, and Bekins*, 304 U.S. at 51, which interpreted the Tenth Amendment as requiring that a municipality be left in control of its governmental affairs during a chapter 9 case. Neither creditors nor the court may control the affairs of a municipality indirectly through the mechanism of proposing a plan of adjustment of the municipality's debts that would in effect determine the municipality's future tax and spending decisions.

Confirmation Standards

The standards for plan confirmation in chapter 9 cases are a combination of the statutory requirements of 11 U.S.C. § 943(b) and those portions of 11 U.S.C. § 1129 (the chapter 11 confirmation standards) made applicable by 11 U.S.C. § 901(a). Section 943(b) lists seven general conditions required for confirmation of a plan. The court must confirm a plan if the following conditions are met:

1. the plan complies with the provisions of title 11 made applicable by sections 103(e) and 901;
2. the plan complies with the provisions of chapter 9;
3. all amounts to be paid by the debtor or by any person for services or expenses in the case or incident to the plan have been fully disclosed and are reasonable;
4. the debtor is not prohibited by law from taking any action necessary to carry out the plan;
5. except to the extent that the holder of a particular claim has agreed to a different treatment of such claim, the plan provides that on the effective date of the plan, each holder of a claim of a kind specified in section 507(a)(1) will receive on account of such claim cash equal to the allowed amount of such claim;
6. any regulatory or electoral approval necessary under applicable nonbankruptcy law in order to carry out any provision of the plan has been obtained, or such provision is expressly conditioned on such approval; and
7. the plan is in the best interests of creditors and is feasible.

11 U.S.C. § 943(b).

Section 943(b)(1) requires as a condition for confirmation that the plan comply with the provisions of the Bankruptcy Code made applicable by sections 103(e) and 901(a) of the Bankruptcy Code. The most important of these for purposes of confirming a plan are those provisions of 11 U.S.C. § 1129 (i.e., § 1129(a)(2), (a)(3), (a)(6), (a)(8), (a)(10)) that are made applicable by 11 U.S.C. § 901(a). Section 1129(a)(8) requires, as a condition to confirmation, that the plan has been accepted by each class of claims or interests impaired under the plan. Therefore, if the plan proposes treatment for a class of creditors such that the class is impaired (i.e., the creditor's legal, equitable, or contractual rights are altered), then that class's acceptance is required. If the class is not impaired, then acceptance by that class is not required as a condition to confirmation. Under 11 U.S.C. § 1129(a)(10), the court may confirm the plan only if, should any class of claims be impaired under the plan, at least one impaired class has accepted the plan. If only one impaired class of creditors consents to the plan, plan confirmation is still possible under the "cram down" provisions of 11 U.S.C. § 1129(b). Under "cram down," if all other requirements are met except the § 1129(a)(8) requirement that all classes either be unimpaired or have accepted the plan, then the plan is confirmable if it does not discriminate unfairly and is fair and equitable.

The requirement that the plan be in the "best interests of creditors" means something different under chapter 9 than under chapter 11. Under chapter 11, a plan is said to be in the "best

interest of creditors" if creditors would receive as much under the plan as they would if the debtor were liquidated. 11 U.S.C. § 1129(a)(7)(A)(ii). Obviously, a different interpretation is needed in chapter 9 cases because a municipality's assets cannot be liquidated to pay creditors. In the chapter 9 context, the "best interests of creditors" test has generally been interpreted to mean that the plan must be better than other alternatives available to the creditors. See 6 COLLIER ON BANKRUPTCY § 943.03[7] (15th ed. rev. 2005). Generally speaking, the alternative to chapter 9 is dismissal of the case, permitting every creditor to fend for itself. An interpretation of the " best interests of creditors" test to require that the municipality devote all resources available to the repayment of creditors would appear to exceed the standard. The courts generally apply the test to require a reasonable effort by the municipal debtor that is a better alternative for its creditors than dismissal of the case. Id.

Parties in interest may object to confirmation, including creditors whose claims are affected by the plan, an organization of employees of the debtor, and other tax payers, as well as the Securities and Exchange Commission. 11 U.S.C. §§ 901(a), 943, 1109, 1128(b).

Discharge

A municipal debtor receives a discharge in a chapter 9 case after: (1) confirmation of the plan; (2) deposit by the debtor of any consideration to be distributed under the plan with the disbursing agent appointed by the court; and (3) a determination by the court that securities deposited with the disbursing agent will constitute valid legal obligations of the debtor and that any provision made to pay or secure payment of such obligations is valid. 11 U.S.C. § 944(b). Thus, the discharge is conditioned not only upon confirmation, but also upon deposit of the consideration to be distributed under the plan and a court determination of the validity of securities to be issued.

There are two exceptions to the discharge in chapter 9 cases. The first is for any debt excepted from discharge by the plan or order confirming the plan. The second is for a debt owed to an entity that, before confirmation of the plan, had neither notice nor actual knowledge of the case. 11 U.S.C. § 944(c).

At any time within 180 days after entry of the confirmation order, the court may, after notice and a hearing, revoke the order of confirmation if the order was procured by fraud. 11 U.S.C. §§ 901(a), 1144.

RESOLUTION NO.

STOCKTON CITY COUNCIL

RESOLUTION CONTINGENTLY AUTHORIZING THE FILING OF A PETITION UNDER CHAPTER 9 OF THE UNITED STATES BANKRUPTCY CODE

The City Council (the "Council") of the City of Stockton (the "City") has determined that the City faces an immediate and severe fiscal crisis and that it is or likely will become unable to meet its financial obligations as and when those obligations are due or become due and owing; and

Government Code sections 53760 through 53760.7 (collectively, the "Act") establish a confidential neutral evaluation process that the City and certain interested parties (as defined in the Act) (the "Interested Parties") are using to attempt to reach a mediated and negotiated resolution of their disputes in order to avoid the need for the City to seek relief pursuant to Chapter 9 of the United States Bankruptcy Code; and

By Resolution No. 2012-1502-03 adopted on February 28, 2012, the Council determined that it was in the best interests of the City, its citizens, employees, creditors, and Interested Parties to promptly commence a confidential neutral evaluation process pursuant to the Act, and delegated to the City Manager and his delegees the power to negotiate on the City's behalf with those Interested Parties who elected to participate in the Act's neutral evaluation process, with any agreements reached in the mediation subject to final approval by this Council; and

The City Manager initiated the neutral evaluation process on February 29, 2012, which process initially was scheduled to expire on May 26, 2012, pursuant to Government Code section 53760.3(r); and

On March 27, 2012, the City and the Interested Parties selected former United States Bankruptcy Judge Ralph Mabey to serve as the neutral evaluator, and have been negotiating actively and in good faith; and

On or around May 21, 2012, a majority of the Interested Parties elected to extend the neutral evaluation process by an additional 30 days until June 25, 2012, pursuant to Government Code section 53760.3(r); and

City Atty
Review
Date May 20, 2012

Despite the pending neutral evaluation process, given the City's dire financial condition and taking into consideration the advice of City staff and counsel, the Council has determined that it is in the best interests of the City to delegate to the City Manager and his delegees the power to file a petition for protection under Chapter 9 of the United States Bankruptcy Code, should he determine that the neutral evaluation process has not resolved the City's financial and solvency issues prior to the end of the current fiscal year; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF STOCKTON, AS FOLLOWS:

Section 1. Findings. The foregoing recitals are true and correct and this Council hereby so finds and determines. The Council hereby makes the following additional findings:

(a) On February 28, 2012, the Council adopted Resolution Nos. 12-1502-01, 12-1502-02, and 12-1502-03, in which the Council found that the City's financial condition was continuing to deteriorate and adopted certain actions. The Council reiterates and reaffirms its findings and actions contained in Resolution Nos. 12-1502-01, 12-1502-02, and 12-1502-03.

(b) Based on the analysis provided by City staff and counsel, the Council determines that without restructuring of the City's financial obligations through either the neutral evaluation process or through a Chapter 9 bankruptcy case, the City will be insolvent on June 30, 2012, the end of the current fiscal year, and in the fiscal year that begins on July 1, 2012.

(c) The Council determines that services provided to the community have fallen to unacceptably low levels due to prior budget reductions, and that further cuts would reduce services to levels that would endanger the health, safety, and welfare of the community.

Section 2. Authorization To File Chapter 9 Petition.

(a) As a contingency option should the City Manager determine that the neutral evaluation process has not resolved the City's pending disputes with creditors and its solvency issues, the Council hereby resolves that a petition for protection under Chapter 9 of the United States Bankruptcy Code shall be filed.

(b) The City Manager, or his delegee, is hereby authorized and directed, on behalf of and in the name of the City, to execute and verify such petition and cause the same to be filed with the United States Bankruptcy Court, Eastern District of California, Sacramento Division.

(c) The City Manager and all other appropriate officials and employees of the City are hereby authorized to execute and file all petitions, schedules, lists, and other papers, and to take any and all actions which they shall deem necessary and

proper in connection with said Chapter 9 case, and with a view to the successful completion of such case.

Section 3. Other Actions. The City Manager, City Attorney, Chief Financial Officer, City Clerk, and other appropriate officers of the City, each acting alone, are authorized to take such other actions as are appropriate to carry out the intent of this Resolution.

Section 4. Effectiveness. This Resolution shall take effect immediately upon its adoption.

PASSED, APPROVED, AND ADOPTED June 5, 2012.

_____
ANN JOHNSTON
Mayor of the City of Stockton

ATTEST:

_____
BONNIE PAIGE
City Clerk of the City of Stockton

Exhibit V

Central Connecticut State University (CCSU) > Overall Rankings

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CITY	FINAL RANK 2011	2010	2009	2008	2007	2006	2005
Washington, DC	1	1	2	3	5	3.5	3
Seattle, WA	2	2	1	1.5	2	1	1
Minneapolis, MN	3	3	3	1.5	1	2	2
Atlanta, GA	4	4	5	6	8	3.5	4
Boston, MA	5	12	8	8	10	11	7
Pittsburgh, PA	6	5	4	12	9	6	8
Cincinnati, OH	7	11	9	10.5	11	7	9.5
St. Louis, MO	8	9.5	11	9	6	12	15
San Francisco, CA	9	6	12	5	7	9	5
Denver, CO	10	8	10	7	4	8	6
Portland, OR	11	9.5	6	10.5	12	10	11
St. Paul, MN	12	7	7	4	3	5	9.5
Cleveland, OH	13	14	13	13	13	14	18
Kansas City, MO	14	17	14	18	15	17	14
Oakland, CA	15	37	35	23	46	35	30
Raleigh, NC	16	13	19	14	14	13	13
New Orleans, LA	17	15	17	--	--	--	--
Baltimore, MD	18	18	26	16	27	24	21
Honolulu CDP, HI	19	27	28	22	18	22	35
Virginia Beach, VA	20	35	44	27	24	27	41
Tulsa, OK	21	24	20.5	21	16	19.5	24.5
Austin, TX	22.5	21	16	17	23	16	16
New York City, NY	22.5	26	29	24	28	42	32.5
Lexington-Fayette, KY	24	23	15	19.5	17	30	27.5
Tampa, FL	25	19	20.5	29	20	21	24.5
Colorado Springs, CO	26	25	24	26	30	33.5	19
Nashville-Davidson, TN	27	22	18	19.5	19	18	17
Lincoln, NE	28	20	23	--	--	--	--
Chicago, IL	29	28	30	34	40	39	46
Columbus, OH	30	16	22	15	21	15	12
Philadelphia, PA	31	31.5	32	28	31.5	33.5	32.5
San Jose, CA	32	50.5	56	46	54	50	51
Buffalo, NY	33.5	41	41.5	42	42	44	47
San Diego, CA	33.5	38.5	33.5	25	36	26	39
Newark, NJ	35	57	57	52	49	51	37
Miami, FL	36	29.5	33.5	33	22	23	27.5
Indianapolis, IN	37	34	25	37	29	29	23
Albuquerque, NM	38	43	39	35	41	38	36
Fort Wayne, IN	39	46	43	44	--	--	--
Greensboro, NC	40.5	38.5	36	--	--	--	--
Omaha, NE	40.5	42	37	40	34.5	31	31
Louisville-Jefferson Co.,KY	42	40	40	38.5	31.5	37	40
Toledo, OH	43	47	47	48	37	32	26
Sacramento, CA	44	45	41.5	30	25	28	22
Charlotte, NC	45	31.5	27	31	26	19.5	20
Plano, TX	46	54	53.5	55	51	53	--
Las Vegas, NV	47	52	50	41	43	40	44.5
Milwaukee, WI	48	29.5	31	36	34.5	25	29
Detroit, MI	49.5	56	51	51	50	52	56
Oklahoma City, OK	49.5	36	38	43	38.5	43	38
Dallas, TX	51	44	48	38.5	47.5	49	48
Jacksonville, FL	52	49	55	50	47.5	45.5	44.5
Henderson, NV	53	63	64	--	--	--	--
Fort Worth, TX	54	50.5	52	45	45	45.5	44.5
Tucson, AZ	55	33	45	32	33	36	34
Phoenix, AZ	56	58	59	57	56	59	54
Riverside, CA	57	59	58	53	52	56	58.5
Santa Ana, CA	58	67	67	62	57	61	62
Los Angeles, CA	59	61	62	56	53	57	60
Houston, TX	60	60	60	54	55	55	53
Anchorage, AK	61	53	49	47	38.5	47	43
Wichita, KS	62	48	46	49	44	48	49
Memphis, TN	63	55	53.5	58	59	54	58.5
Arlington, TX	64	71	70.5	63	62	64.5	57
Long Beach, CA	65	68	63	60	60	63	61
San Antonio, TX	66	62	61	64	62	63	64
Aurora, CO	67	74	70.5	66	66	67	55
Glendale, AZ	68	66	65.5	65	--	--	--

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Anaheim, CA	69	72	69	67	67	64.5	66
Mesa, AZ	70	65	68	61	61	58	52
Fresno, CA	71	64	65.5	59	58	60	63
Stockton, CA	72	75	72	70	69	70	69
El Paso, TX	73	69.5	75	71	68	69	68
Corpus Christi, TX	74	69.5	74	69	65	68	67
Bakersfield, CA	75	73	73	68	64	66	65

Education

Education Level

Education Attainment was indexed with two variables:

1. Percentage of the adult population with a high school diploma or higher
2. Percentage of the adult population with a bachelor's degree or higher

EDUCATION	CITY	FINAL RANK
1	Plano, TX	46
2	Seattle, WA	2
3	Raleigh, NC	16
4	Minneapolis, MN	3
5	Portland, OR	11
6	Washington, DC	1
7	Colorado Springs, CO	26
8	Lincoln, NE	28
9	Anchorage, AK	61
10	Atlanta, GA	4
11	Pittsburgh, PA	6
12	Lexington-Fayette, KY	24
13	San Francisco, CA	9
14	Honolulu CDP, HI	19
15	San Diego, CA	33.5
16	Virginia Beach, VA	20
17	Greensboro, NC	40.5
18	Charlotte, NC	45
19	Boston, MA	5
20	Henderson, NV	53
21	Austin, TX	22.5
22	Omaha, NE	40.5
23	Columbus, OH	30
24	Albuquerque, NM	38
25	Denver, CO	10
26	St. Paul, MN	12
27	Kansas City, MO	14
28	San Jose, CA	32
29.5	Tulsa, OK	21
29.5	Nashville-Davidson, TN	27
31	New Orleans, LA	17
32	Tampa, FL	25
33	Fort Wayne, IN	39
34	Cincinnati, OH	7
35	Oakland, CA	15
36	Jacksonville, FL	52
37	Louisville-Jefferson Co.,KY	42
38	Chicago, IL	29
39.5	Wichita, KS	62
39.5	Aurora, CO	67
41	Oklahoma City, OK	49.5
42	Mesa, AZ	70
43	New York City, NY	22.5
44	Tucson, AZ	55
45.5	St. Louis, MO	8
45.5	Arlington, TX	64
47.5	Indianapolis, IN	37
47.5	Sacramento, CA	44
49	Toledo, OH	43
50	Phoenix, AZ	56
51	Buffalo, NY	33.5
52	Memphis, TN	63
53	Long Beach, CA	65
54	Los Angeles, CA	59
55	Fort Worth, TX	54
56	Houston, TX	60
57	Dallas, TX	51
58	San Antonio, TX	66

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59	Las Vegas, NV	47
60	Glendale, AZ	68
61	Philadelphia, PA	31
62.5	Baltimore, MD	18
62.5	Milwaukee, WI	48
64	Corpus Christi, TX	74
65	Riverside, CA	57
66	Anaheim, CA	69
67	Bakersfield, CA	75
68	El Paso, TX	73
69	Cleveland, OH	13
70	Miami, FL	36
71	Fresno, CA	71
72	Stockton, CA	72
73	Detroit, MI	49.5
74	Newark, NJ	35
75	Santa Ana, CA	58

Libraries

Library Support, Holdings, and Utilization

These four variables were indexed to determine a total score and consequent ranking:

1. Number of branch libraries per 10,000 library service population
2. Volumes held in the library per capita of library service population
3. Number of circulations per capita of library service population
4. Number of library professional staff per 10,000 library service population

These numbers were then divided by the city population in order to calculate ratios of library services and resources available to the population.

LIBRARY	CITY	FINAL RANK
	1Cleveland, OH	13
	2St. Louis, MO	8
	3Pittsburgh, PA	6
	4Fort Wayne, IN	39
	5Seattle, WA	2
	6Denver, CO	10
	7Cincinnati, OH	7
	8Toledo, OH	43
	9Kansas City, MO	14
	10Tulsa, OK	21
	11Indianapolis, IN	37
	12Columbus, OH	30
	13Minneapolis, MN	3
	14Washington, DC	1
	15Nashville-Davidson, TN	27
	16Boston, MA	5
	17.5San Francisco, CA	9
	17.5St. Paul, MN	12
	19Portland, OR	11
	20Lincoln, NE	28
	21Atlanta, GA	4
	22Lexington-Fayette, KY	24
	23Virginia Beach, VA	20
	24Colorado Springs, CO	26
	25New York City, NY	22.5
	26Newark, NJ	35
	27Honolulu CDP, HI	19
	28Baltimore, MD	18
	29Plano, TX	46
	30Jacksonville, FL	52
	31Omaha, NE	40.5
	32Dallas, TX	51
	33Oklahoma City, OK	49.5
	34Louisville-Jefferson Co.,KY	42
	35Austin, TX	22.5
	36Charlotte, NC	45
	37.5Oakland, CA	15
	37.5Philadelphia, PA	31
	39Milwaukee, WI	48
	40Wichita, KS	62
	41Raleigh, NC	16
	42Detroit, MI	49.5
	43Anchorage, AK	61
	44Albuquerque, NM	38
	45.5Tucson, AZ	55
	45.5Glendale, AZ	68
	47.5San Diego, CA	33.5
	47.5Fresno, CA	71
	49Tampa, FL	25
	50New Orleans, LA	17
	51Memphis, TN	63
	52San Jose, CA	32

53	Fort Worth, TX	54
54	Las Vegas, NV	47
55	Miami, FL	36
56	Phoenix, AZ	56
57	Chicago, IL	29
58.5	Henderson, NV	53
58.5	Arlington, TX	64
60	Long Beach, CA	65
61	El Paso, TX	73
62	Greensboro, NC	40.5
63	Anaheim, CA	69
64	Buffalo, NY	33.5
65	San Antonio, TX	66
66	Corpus Christi, TX	74
67.5	Riverside, CA	57
67.5	Los Angeles, CA	59
69	Bakersfield, CA	75
70	Aurora, CO	67
71	Sacramento, CA	44
72	Mesa, AZ	70
73	Houston, TX	60
74	Stockton, CA	72
75	Santa Ana, CA	58

NEWSPAPER

Newspaper Circulation

Newspaper circulation was indexed as two variables. All figures divided by total city population

1. Weekday total circulation
2. Sunday total circulation

These numbers were then divided by the city population in order to calculate ratios of library services and resources available to the population.

NEWSPAPER	CITY	FINAL RANK
1	Washington, DC	1
2	Minneapolis, MN	3
3	Santa Ana, CA	58
4	Newark, NJ	35
5	St. Louis, MO	8
6	Cleveland, OH	13
7	Pittsburgh, PA	6
8	St. Paul, MN	12
9.5	Denver, CO	10
9.5	Buffalo, NY	33.5
11	Cincinnati, OH	7
12	Detroit, MI	49.5
13.5	Atlanta, GA	4
13.5	Miami, FL	36
15	San Jose, CA	32
16	Boston, MA	5
17	Kansas City, MO	14
18	Tampa, FL	25
19	Sacramento, CA	44
20.5	Seattle, WA	2
20.5	Portland, OR	11
22	Toledo, OH	43
23	Honolulu CDP, HI	19
24	New Orleans, LA	17
25	Milwaukee, WI	48
26	Riverside, CA	57
27	Raleigh, NC	16
28.5	Chicago, IL	29
28.5	Omaha, NE	40.5
30	Baltimore, MD	18
31.5	Virginia Beach, VA	20
31.5	Los Angeles, CA	59
33	Fort Wayne, IN	39
34	Lexington-Fayette, KY	24
35	Louisville-Jefferson Co.,KY	42
36	Las Vegas, NV	47
37	Dallas, TX	51
38	San Francisco, CA	9
39.5	Tulsa, OK	21
39.5	New York City, NY	22.5
41	Houston, TX	60
42.5	Indianapolis, IN	37
42.5	Oklahoma City, OK	49.5
44.5	Nashville-Davidson, TN	27
44.5	Fort Worth, TX	54
46	Greensboro, NC	40.5
47	Philadelphia, PA	31
48	Phoenix, AZ	56
49	Lincoln, NE	28
50	Fresno, CA	71
51	Oakland, CA	15
52	Columbus, OH	30
53	Charlotte, NC	45
55	Colorado Springs, CO	26
55	Tucson, AZ	55

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55	Wichita, KS	62
57	San Diego, CA	33.5
58	Memphis, TN	63
59	Austin, TX	22.5
60	Albuquerque, NM	38
61	Long Beach, CA	65
62	San Antonio, TX	66
63	Corpus Christi, TX	74
64	Anchorage, AK	61
65	Jacksonville, FL	52
66	Stockton, CA	72
67	Bakersfield, CA	75
68	El Paso, TX	73
72	Plano, TX	46
72	Henderson, NV	53
72	Arlington, TX	64
72	Aurora, CO	67
72	Glendale, AZ	68
72	Anaheim, CA	69
72	Mesa, AZ	70

Publications

Periodical Publishers

These two factors were used to derive a total score and consequent ranking:

1. Number of magazine publishers with circulation over 2,500 per 100,000 population
2. Number of journals published with circulation over 500 per 100,000 population.

Magazine	CITY	FINAL RANK
1	Washington, DC	1
2.5	Boston, MA	5
2.5	New York City, NY	22.5
4	Atlanta, GA	4
5	Cleveland, OH	13
6	Pittsburgh, PA	6
7.5	Minneapolis, MN	3
7.5	Cincinnati, OH	7
9	St. Louis, MO	8
10	San Francisco, CA	9
12	Seattle, WA	2
12	Nashville-Davidson, TN	27
12	Chicago, IL	29
14.5	Honolulu CDP, HI	19
14.5	Lincoln, NE	28
16	Philadelphia, PA	31
17	Tulsa, OK	21
18	Austin, TX	22.5
19	Miami, FL	36
20	Baltimore, MD	18
21	Greensboro, NC	40.5
22	Denver, CO	10
24.5	Portland, OR	11
24.5	St. Paul, MN	12
24.5	Raleigh, NC	16
24.5	Tampa, FL	25
27	Indianapolis, IN	37
28	Columbus, OH	30
29	Lexington-Fayette, KY	24
30.5	Kansas City, MO	14
30.5	New Orleans, LA	17
32	Sacramento, CA	44
33.5	Virginia Beach, VA	20
33.5	Milwaukee, WI	48
35	Oakland, CA	15
36	Colorado Springs, CO	26
37	Buffalo, NY	33.5
38	Las Vegas, NV	47
40	Omaha, NE	40.5
40	Tucson, AZ	55
40	Memphis, TN	63
42	Oklahoma City, OK	49.5
43	Albuquerque, NM	38
45	San Diego, CA	33.5
45	Charlotte, NC	45
45	Dallas, TX	51
47	Fort Wayne, IN	39
48	Phoenix, AZ	56
49.5	Newark, NJ	35
49.5	Fort Worth, TX	54
51.5	Plano, TX	46
51.5	Jacksonville, FL	52
53.5	Louisville-Jefferson Co.,KY	42
53.5	Riverside, CA	57
56	Santa Ana, CA	58
56	Houston, TX	60
56	Wichita, KS	62

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58	Detroit, MI	49.5
59	Los Angeles, CA	59
60	Henderson, NV	53
61	San Antonio, TX	66
62	Anaheim, CA	69
63	San Jose, CA	32
64	Anchorage, AK	61
65	Arlington, TX	64
66	Long Beach, CA	65
67	Toledo, OH	43
68	Aurora, CO	67
69	Corpus Christi, TX	74
70	Fresno, CA	71
71	El Paso, TX	73
72	Bakersfield, CA	75
74	Glendale, AZ	68
74	Mesa, AZ	70
74	Stockton, CA	72

Booksellers

Bookstores (per 10,000 population)

These three variables were used to determine a total score and consequent ranking:

1. Number of retail bookstores per 10,000 population
2. Number of rare and used bookstores per 10,000 population
3. Number of members of the American Booksellers Association per 10,000 population

Booksellers	CITY	FINAL RANK
1	Newark, NJ	35
2	Oakland, CA	15
3	St. Paul, MN	12
4	Seattle, WA	2
5.5	Atlanta, GA	4
5.5	Pittsburgh, PA	6
7.5	Minneapolis, MN	3
7.5	St. Louis, MO	8
9	San Francisco, CA	9
10	Cincinnati, OH	7
11	Portland, OR	11
12	Denver, CO	10
13.5	Washington, DC	1
13.5	Riverside, CA	57
15	Anaheim, CA	69
16	Arlington, TX	64
17	New Orleans, LA	17
18	Buffalo, NY	33.5
19	Miami, FL	36
20	Boston, MA	5
21.5	Baltimore, MD	18
21.5	Mesa, AZ	70
23.5	Raleigh, NC	16
23.5	Long Beach, CA	65
25	Glendale, AZ	68
26.5	Santa Ana, CA	58
26.5	Aurora, CO	67
28	Plano, TX	46
29	Cleveland, OH	13
30	Albuquerque, NM	38
31	Tampa, FL	25
32	Lexington-Fayette, KY	24
33	Henderson, NV	53
34	Tulsa, OK	21
35.5	Louisville-Jefferson Co.,KY	42
35.5	Las Vegas, NV	47
37	Philadelphia, PA	31
38	Greensboro, NC	40.5
39	Sacramento, CA	44
40	San Diego, CA	33.5
41	Fort Worth, TX	54
42	Kansas City, MO	14
43	Austin, TX	22.5
44	Detroit, MI	49.5
45	Lincoln, NE	28
46	Tucson, AZ	55
47	Toledo, OH	43
48	Nashville-Davidson, TN	27
49	Omaha, NE	40.5
50	San Jose, CA	32
51	Columbus, OH	30
52	Fort Wayne, IN	39
53	Virginia Beach, VA	20
55.5	Chicago, IL	29
55.5	Indianapolis, IN	37
55.5	Charlotte, NC	45
55.5	Milwaukee, WI	48

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58	Wichita, KS	62
59	Oklahoma City, OK	49.5
60	Memphis, TN	63
61	Houston, TX	60
62	Anchorage, AK	61
63	Dallas, TX	51
64	Colorado Springs, CO	26
65	Stockton, CA	72
66	Phoenix, AZ	56
67	Fresno, CA	71
68	New York City, NY	22.5
69	San Antonio, TX	66
70	Los Angeles, CA	59
71	Jacksonville, FL	52
72	Honolulu CDP, HI	19
73	Corpus Christi, TX	74
74	Bakersfield, CA	75
75	El Paso, TX	73

Internet

Internet Resources

Internet resources were indexed as three variables. These numbers were then divided by the city population in order to calculate ratios of internet resources available to the population.

1. Number of Internet book orders per capita
2. Number of unique visitors per capita to a city's internet version newspaper
3. Number of webpage views per capita to a city's internet version newspaper
4. Number of households owning an E-book reader

INTERNET	CITY	FINAL RANK
1	Washington, DC	1
2	Boston, MA	5
4	San Francisco, CA	9
4	Oakland, CA	15
4	San Jose, CA	32
6	New York City, NY	22.5
7	Seattle, WA	2
8	Austin, TX	22.5
9	San Diego, CA	33.5
10	Baltimore, MD	18
11	Colorado Springs, CO	26
12	Atlanta, GA	4
13	Philadelphia, PA	31
14.5	Cincinnati, OH	7
14.5	Phoenix, AZ	56
16	Chicago, IL	29
17	Virginia Beach, VA	20
18	New Orleans, LA	17
19	Jacksonville, FL	52
20	St. Louis, MO	8
21	Houston, TX	60
22	Honolulu CDP, HI	19
23	Portland, OR	11
24	Denver, CO	10
25	Los Angeles, CA	59
26.5	Minneapolis, MN	3
26.5	St. Paul, MN	12
28	San Antonio, TX	66
29.5	Las Vegas, NV	47
29.5	Henderson, NV	53
31	Detroit, MI	49.5
32.5	Dallas, TX	51
32.5	Fort Worth, TX	54
34	Buffalo, NY	33.5
35	Albuquerque, NM	38
36	Kansas City, MO	14
37.5	Sacramento, CA	44
37.5	Stockton, CA	72
39	Tampa, FL	25
40	Charlotte, NC	45
41	Milwaukee, WI	48
42.5	Columbus, OH	30
42.5	Oklahoma City, OK	49.5
44	Indianapolis, IN	37
45	Louisville-Jefferson Co.,KY	42
46	Cleveland, OH	13
47.5	Miami, FL	36
47.5	Tucson, AZ	55
49	Raleigh, NC	16
50	Pittsburgh, PA	6
51	Nashville-Davidson, TN	27
52	Toledo, OH	43
53	Tulsa, OK	21

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54	Greensboro, NC	40.5
55	Bakersfield, CA	75
56	Fresno, CA	71
57	Lexington-Fayette, KY	24
58	El Paso, TX	73
59	Memphis, TN	63
67.5	Lincoln, NE	28
67.5	Newark, NJ	35
67.5	Fort Wayne, IN	39
67.5	Omaha, NE	40.5
67.5	Plano, TX	46
67.5	Riverside, CA	57
67.5	Santa Ana, CA	58
67.5	Anchorage, AK	61
67.5	Wichita, KS	62
67.5	Arlington, TX	64
67.5	Long Beach, CA	65
67.5	Aurora, CO	67
67.5	Glendale, AZ	68
67.5	Anaheim, CA	69
67.5	Mesa, AZ	70
67.5	Corpus Christi, TX	74

Methodology 2011

Selection of Cities for Inclusion

Cities were selected based on their 2010 U.S. Census population figures. The study was limited to those cities with a population of 250,000 or larger as of publication of the decennial census. As these figures are not estimates, but actual population counts, the population of cities may have increased or decreased significantly as compared to the population estimates in years past. [DONE]

Newspaper Data

For the newspaper database, the Daily and Sunday Circulation figures were obtained from the Audit Bureau of Circulation FAS-FAX Report 9/30/2011 (www.abcas3.accessabc.com/ecirc/newsform.asp). One city did not have data for 9/30/2011. The figures for Oakland are from 3/31/2010. For all cities, those circulation numbers were then divided by the 2010 U.S. Census population figures for the cities resulting in a ratio, which was then rank ordered. Seven cities (Anaheim, CA, Arlington, TX, Aurora, CO , Glendale, AZ, Henderson, NV, Mesa, AZ, and Plano, TX) had no newspaper in their city that participates in the ABC Publisher's Statements.

Internet Data

Figures for "visited a newspaper/TV website in the past 7 days", "purchased a book on the internet in the past 12 months", and "currently owns an eReader" were obtained from Scarborough Research's February 2010-March 2011 USA+2011 Release. Cities were ranked according to the index figures provided by Scarborough. Please note that Scarborough did not have data for the following cities: Long Beach, CA; Mesa, AZ; Plano, TX; Corpus Christi, TX; Aurora, CO; Arlington, TX; New Britain, CT; Anaheim, CA; Omaha, NE; Riverside, CA; Anchorage, AK; Santa Ana, CA; Fort Wayne, IN; Glendale, AZ: Lincoln, NE; Wichita, KS; and Newark, NJ. Hence, all of those cities were ranked last.

Magazines and Journals Data

Figures for this database were gathered from the web edition of the National Directory of Magazines and the Standard Periodical Directory through the www.MediaFinder.com website of Oxbridge Communications from December 2-3, 2011. Only those journals with a total circulation of 500 or more were included, and only those magazines with a total circulation of 2,500 or more were included.

Booksellers and Stores Data

For this database, information was gathered from Yellowpages.com for information on retail, rare, and used booksellers as of November, 2011. For "retail bookstores", the search term used was "Book Stores" and those stores (excluding those sub-listed as "religious bookstores" or "adult bookstores") were included.

Also, the American Booksellers Association site (http://www.bookweb.org) was used for independent bookseller information. Please note that for figures reported for "retail", these did not include any "specialty", "adult", or "religious" bookstores, and the stores were those listed at these database sites in November of 2011.

NOTE; Newark, Oakland, Riverside, Anaheim, Arlington, Boston, Mesa, Long Beach, Glendale, Aurora, Santa Ana, Plano, Henderson, Ft. Worth, Detroit, made leaps of 20 positions or more using this method, displacing historically high-rated cities.

Educational Attainment Data

For this database, information was gathered from the U.S. Census Bureau's "American Factfinder" website (http://factfinder2.census.gov), specifically from the results of the American Community Survey, 2010. The Educational Attainment data were gathered from the geographic subset listed as, "Geography Type: Place" and then "City."

Library Data

a) Information regarding library staff per capita, volumes per capita, circulation per capita, and branches per capita was gleaned from the Institute of Museum and Library Services (IMLS), specifically the "Library Statistics Program" and its "Public Libraries Survey, FY2009".

b) Information regarding the number of students and media specialists comes from the National Center for Education Statistics (NCES) database, specifically the "Public School District" data presented on December 15-22, 2011. For the "Media Specialists" total, the number of "Librarians/Media Specialists" was combined with the number of "Library/Media Support" staff.

School districts labeled as "Regular School Districts" in population centers labeled "City: Large" in a "MSA- Central City"

metropolitan status were included.

Several cities had multiple school districts that met the criteria. Here is a list of those cities and the school districts included:

Anaheim, CA

Anaheim City

Anaheim Union

Magnolia Elementary

Savanna Elementary

Bakersfield, CA

Bakersfield City

Fruitvale Elementary

Greenfield Union Elementary

Kern Union High

Panama-Buena Vista Union

Rosedale Union Elementary

Colorado Springs, CO

Academy 20

Cheyenne Mountain 12

Colorado Springs 11

Harrison 2

Corpus Christi, TX

Calallen ISD

Corpus Christi ISD

Flour Bluff ISD

West Oso ISD

Tuloso-Midway ISD

West Oso ISD

El Paso, TX

El Paso ISD

Socorro ISD

Ysleta ISD

Fresno, CA

Central Unified

Fresno Unified

West Fresno Elementary

Glendale, AZ

Washington Elementary

Glendale Union High

Houston, TX

Houston ISD

North Forest ISD

Spring Branch ISD

Indianapolis, IN

Indianapolis Public

MSD Decatur Township

MSD Perry Township

MSD Pike Township

MSD Warren Township

MSD Washington Township

MSD Wayne Township

Kansas City, MO

Center 58

Hickman Mills C-1

Kansas City 33

North Kansas City 74

Park Hill

New Orleans, LA

Orleans Parish

Recovery School District LDE

Oklahoma City, OK

Crooked Oak

Oklahoma City

Western Heights

Omaha, NE

Omaha Public

Millard Public

Westside Community

Phoenix, AZ

Alhambra Elementary

Balsz Elementary

Cartwright Elementary

Creighton Elementary

Isaac Elementary

Madison Elementary

Murphy Elementary

Osborn Elementary

Paradise Valley Unified

Pendergast Elementary

Phoenix Elementary

Phoenix Union

Roosevelt Elementary

Wilson Elementary

Portland, OR

David Douglas SD40

Parkrose SD3

Portland SD

Riverside, CA

Alvord Unified

Riverside Unified

Sacramento, CA

Robla Elementary

Sacramento City Unified

San Antonio, TX

Edgewood ISD

Fort Sam Houston ISD

Harlandale ISD

North East ISD

Northside ISD

San Antonio ISD

South San Antonio ISD

San Jose, CA

Alum Rock Union Elementary

Berryessa Union Elementary

Cambrian Elementary

Campbell Union High

East Side Union High

Evergreen Elementary

Franklin-McKinley Elementary

Luther Burbank

Moreland Elementary

Mt. Pleasant Elementary

Oak Grove Elementary

Orchard Elementary

San Jose Unified

Union Elementary

Stockton, CA

Lincoln Unified

Stockton City Unified

Tucson, AZ

Sunnyside Unified

Tucson Unified

Tulsa, OK

Tulsa

Union

Additionally, several cities' information was based on county school district information reported. They included:

Charlotte, NC

Charlotte-Mecklenburg School District

Greensboro, NC

Guilford County School District

Henderson, NV

Clark County School District

Honolulu, HI

Hawaii Department of Education

Jacksonville, FL

Duval County School District

Las Vegas, NV

Clark County School District

Lexington, KY

Fayette County School District

Louisville, KY

Jefferson County School District

Miami, FL

Dade County School District

Raleigh, NC

Wake County School District

Tampa, FL

Hillsborough County School District

Finally, the figures for New York, NY were derived from data provided by New York City Geographic Districts 1-6 from the National Center for Education Statistics (NCES) database ("Public School District" data for the 2009-2010 school year), as new figures were only available from those districts.

Also, while the figures for the number of students in each of the California school districts was the most recent provided by NCES, the number of media specialists was not updated by NCES. Therefore, figures for the previous year's study were used when it came to media specialists.