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21 and Assured Guaranty Municipal Corp.

22 UNITED STATES BANKRUPTCY COURT
23 EASTERN DISTRICT OF CALIFORNIA
24 SACRAMENTO DIVISION

25 In re:) Case No. 12-32118
26 CITY OF STOCKTON, CALIFORNIA,)
27 Debtor,) DC No. OHS-1
28) Chapter 9
29) Date: February 26, 2013
30) Time: 1:30 p.m.
31) Dept.: C, Courtroom 35
32) Judge: Hon. Christopher M. Klein

33 **EXHIBITS TO DECLARATION OF NANCY L. ZIELKE IN SUPPORT OF**
34 **SUPPLEMENTAL OBJECTION OF ASSURED GUARANTY CORP. AND ASSURED**
35 **GUARANTY MUNICIPAL CORP. TO DEBTOR'S CHAPTER 9 PETITION AND**
36 **STATEMENT OF QUALIFICATIONS**

37 Exhibit A C.V. Of Nancy L. Zielke.....3
38 Exhibit B Report Of Nancy L. Ziel13

EXHIBIT A

NANCY L. ZIELKE, SENIOR DIRECTOR

Education	<ul style="list-style-type: none"> • Bachelor's degree in business administration, with concentrations in economics and marketing, from Adrian College. • Master's degree in public administration from the University of Kansas with concentration in urban management.
Years of Experience	28 years

Nancy Zielke is a Senior Director with Alvarez & Marsal (A&M) Public Sector Services LLC. Her primary areas of concentration include: public sector financial advisory services; revenue forecasts; internal business process improvement; and economic development and capital financings for state and local governments.

With more than 28 years of public sector experience, Ms. Zielke brings deep expertise in state and local government and higher education budgeting and performance management systems; financial accounting and reporting applications and systems; revenue forecasting and cost of service studies; tax exempt capital financings; economic and community development planning; labor negotiations, privatization and outsourcing opportunities; enterprise resource planning implementation projects; and strategic planning within complex government organizations.

Since joining A&M in May 2007, Ms. Zielke has been a key resource and project consultant on several major state and local government and education financial advisory service projects. Major financial advisory and consulting projects have included:

- | | |
|--|--|
| <ul style="list-style-type: none"> ▲ Kansas City Board of Public Utilities ▲ Unified Government of Wyandotte County/Kansas City, Kansas ▲ City of Overland Park, Kansas ▲ City of Leawood, Kansas ▲ City of Olathe, Kansas ▲ City of Louisburg, Kansas ▲ City of Riverside, Missouri ▲ City of Lees' Summit, Missouri ▲ Detroit Public Schools ▲ Pittsburgh Public Schools | <ul style="list-style-type: none"> ▲ Los Angeles Public Schools ▲ City of Seabrooke, Texas ▲ City of Huntsville, Texas ▲ San Jacinto Community College ▲ Maricopa County Community College ▲ State of South Carolina Department of Health & Human Services ▲ Hartung & Schroeder, LLP ▲ Sunflower Redevelopment Authority, Inc. ▲ Kansas Unified Development, Inc. ▲ Sidley Austin LLP and Guaranty Municipal Corp. ▲ Montague Investment |
|--|--|

Prior to joining Alvarez & Marsal, Ms. Zielke worked in state and local government, public utilities and higher education, where she served in senior financial and administrative positions (City of Kansas City, Kansas; Kansas City Board of Public Utilities, University of Missouri-Kansas City; and the State of Kansas). Ms. Zielke has been a member of Government Finance Officers Association (GFOA), where she served on the Executive Board for six years and was the elected 2004-2005 National President of GFOA. Ms. Zielke was an appointed member to the City of Kansas City, Missouri process improvement review task force studying the City's Occupational Business License program function and the City's Wet Weather Storm Water Master Plan Committee. Ms. Zielke was also appointed by the Mayor/CEO of Wyandotte County/Kansas City, Kansas to serve on the Prairie-Delaware Master Plan Committee.

She is a member of Women in Public Finance, GFOA, Alpha Kappa Psi, and the Kansas University City Management in Training Association and the Junior League of Wyandotte & Johnson Counties in Kansas. She serves as an advisor to the GFOA Governmental Budgeting and Fiscal Policy Standing Committee and a reviewer for the GFOA Awards for Excellence Program and Distinguished Budget Awards Program. As an author and speaker, she has made numerous presentations on a wide variety of topics, including strategies for business process improvement, leadership, and best practices in budgeting and resource allocation strategies.

Public Sector Financial Advisory Consulting Experience



NANCY L. ZIELKE, SENIOR DIRECTOR

Senior Director – Alvarez & Marsal, Kansas City, Missouri

Since May 2007 serving as a financial advisory services consultant to municipal and state governments public utilities, and public education institutions. Primary areas of concentration include: public sector financial planning and management analyses; internal business process improvement; and economic development and capital financings for local and state governments, public utilities, and institutions of higher education. Current consulting experiences include:

- **Public Education Financial Advisory Services** Financial and organization improvement consulting experience with primary, secondary and higher education systems to improve both efficiency and effectiveness of education environments.

K-12 Education Systems

- **Humble Texas Independent School District:** Key project manager with a Houston area suburban school district in assessing how they can improve the allocation of resources to schools in a more equitable and transparent manner. This financial assessment focuses on how resources can be more efficiently and equitably allocated to potentially reduce inequities and underfunded priorities in the District. This project also includes assisting the District in creating a set of key performance measures that can gauge the progress of the District, and includes a review of current financial planning and budgeting, creating a process that is transparent and open, with opportunities for input from the stakeholders.
- **Detroit Michigan Public Schools:** Key project manager in the development of a five-year financial plan to curtail a \$305 million legacy deficit and discovered key operating reductions for both the FY2011 and FY2012 and future budget years, including streamlining departments and improving internal budget processes. Worked with the appointed Emergency Manager in the development of a deficit elimination plan, cost savings strategies including the privatization of various business support services and the deployment of a school costing model. Served as the interim Deputy Chief Finance Officer and oversaw the transition budget blueprint in for long term financial sustainability plans including self assessment of key policies, procedures and business practices needed to address correction action plan issues.
- **Pittsburgh Public Schools:** Project advisor for a budget restructuring initiative to review and validate FY2012 budget and FY2013 budget revenue and expenditure projections. A&M validated the revenue and expense projections for PPS' FY2012 General Fund budget, reviewed and evaluated existing deficit elimination plans, and identified potential opportunities for additional cost savings. In Phase 1, identified \$4 million in savings for FY2012. In Phase 2, developed a multi-year budget forecasting model and identified \$17 million of initiatives. Recommended a new budgetary process including required financial policies.
- **Los Angeles Unified School District:** Project advisor for an organizational and financial assessment on of LAUSD on behalf of the Broad Foundation. As the second largest K-12 school district in the country with over a million students, LAUSD faced a potential \$408 million deficit for FY2011 after reducing \$1.5 billion in expenditures over the prior two years. Conducted an evaluation of LAUSD's Budgeting for Student Achievement program which was focused on extending weighted student funding from its pilot schools to the entire district. Additionally, through an analysis of the entire budget, identified nearly \$200 million of recurring cost savings initiatives, developed an implementation plan for district-wide weighted student funding and a multi-scenario budget tool to assist with identifying the impact of various educational, economic and policy decisions.
- **Confidential Client:** A&M was recently engaged by the state-level government of a U.S. territory to assess its current operational efficiency and financial performance, amid a highly politically-charged environment and a series of "downgrades" from all major rating agencies. The A&M team was engaged across the state's Healthcare, Education, Public Safety and Tax agencies and designed a \$1B fiscal and operations improvement program over the next two to three years to ensure budgetary and operational goals were achieved without distressing public services.

NANCY L. ZIELKE, SENIOR DIRECTOR

Served as key project director where A&M performed an operational and financial assessment of the Education Agency including, school site visits, ride-along, student-teacher ratios/statistical review, academic and curricula review and special education consideration, and the review noted over \$105M in savings.

Additionally, through A&M's understanding of tax policy, compliance and regulations, and the application of tax strategies, the team helped to uncover over \$500M in additional revenue. Within the government's healthcare operations, A&M outlined a strategy to consolidate hospitals and upgrade facilities to improve efficiencies and patient care while reducing overall costs by over \$40M, and assumed an interim management of a hospital, running the financial operations and prioritizing patient care. The team's operational assessment and implementation within the Public Safety operations resulted in initial saving of over \$50M.

Higher Education

- **Maricopa County Community College District:** Key project director in a financial and organizational assessment of the largest US Community College district with the development of a new organizational design. Completed a financial and organizational assessment of the largest US Community College district with the development of a new organizational design. The central focus of the review was on enhancing student achievement, satisfaction and success through the reengineering and transformation of business and administrative services across this 10 college system. The scope of the transformation program encompassed all financial, operational, organizational and Information technology components of the system's central entity as well as the 10 major constituent member colleges. Developed a comprehensive blueprint to streamline and optimize the system, and identified an estimated \$50 million in annual potential savings as a result of these streamlined processes and organizational changes.
 - **Confidential Client:** Project advisor on a financial advisory service and private equity due diligence review related to a potential purchase of a for profit private University. Analysis included a proforma analysis of the tuition, fees and private donation monies compared to student academic and learning needs. Analysis included capital facility site tour of various campuses to determine the occupancy rates for the major professional classrooms and student related counseling, advising and student engagement requirements. Project included development of benchmarks and cost ratios and financial indexes.
- ④ **Economic Development Financial Advisory Services** Key project manager on several retail sales tax studies related to Tax Increment Finance, Transportation Development Districts and STAR Bond financings. Findings of economic impact studies and revenue analysis have been presented to governing bodies, rating agencies, and official statement documents. Project manager over numerous economic impacts, revenue projections, and retail market analysis for several major tourism and retails development projects. Approach to the fiscal impact studies included:
 - Projection of estimated revenues (sales, income, property, and other local revenues), attraction attendance and project related revenues
 - Fiscal and economic impact of the proposed development to the local economy and similar developments
 - Economic impact of the proposed development on the local economy (includes direct /indirect /induced expenditures, and direct job creation) through the application of IMPLAN® modeling applications
 - Determination how the jobs and revenues obtained from the project will contribute significantly to the economic development of the state and region
 - Analyze the unique quality of the projects
- ④ **State Medicaid Cost Financial Advisory Services** Key project director recently worked with the Secretary of South Carolina's Department of Health & Human Services, to improve internal financial and operational processes. Work specifically focused on: improving budgeting processes, forecasting and reporting; identifying potential operational cost savings; documenting sources of funds and the cash reconciliation process; proposing a new organizational structure for finance and administration; validating the budget for FY2012; developing the budget for FY2013; and

NANCY L. ZIELKE, SENIOR DIRECTOR

developing fiscal forecasts for FYs 2014 and 2015. Ms. Zielke also served as the Interim Director of Policy and Budget Planning for SCDHHS.

- ④ **Internal Controls Review** Key project manager of a financial and internal controls review of the use of hotel occupancy tax receipts to ensure compliance with local policies and procedures and state statute. Completed best practice review of similar Texas governments in how hotel taxes were being used and locally administered. Final report identified various policy and internal control improvements.
- ④ **Municipal Utilities Financial Advisory Services** Key project manager in assisting the Kansas City Board of Public Utilities in a high level financial and organizational assessment of how the municipal electric and water service operations can achieve optimal efficiency while maintaining effective internal controls. Examining BPU's current key business practices and benchmarking them to national standards to ensure the application of best in class practices and policies. Also providing recommendations on how to improve budgeting practices and revenue forecasting, financial reporting and cash management practices. Major Financial Advisory projects include:

 - **Organizational and Financial Assessment** Completed various organizational and financial risk assessment on various administrative support (*finance, accounting, internal audit, information services, revenue forecasting, and budget*) for the Kansas City, Kansas municipal electric and water utility. Review aimed to increase accountability of various business units and focus on areas for improved internal controls.
 - **Financial Policies, Budgeting and Reporting** Provided a series of recommendations on how to improve budgeting practices and revenue forecasting, financial reporting and cash management practices. Assisted the public utility in completing other various financial analysis and best practice reviews related to financial performance, issuance of long-term debt, arbitrage rebate, and cost of "free" services.
 - **Automated Metering Information** Assisted the BPU with the development of RFP requirements for automated metering information (AMI) system.
 - **Cost of Service/Rate Adjustments** Assisted the BPU with its Cost of Service presentation process in developing key exhibits and business case for upcoming rate hearings and community meetings.
 - **Energy Efficiency Programs** Developed program structure for revolving loan program for utility to participate in the Efficiency Kansas loan program for residential and commercial studies.
 - **Benchmarking/Balanced Scorecard** Coordinated the deployment of department/program operating performance ratios, benchmarks and measurements for increased accountability in BPU's operational performance. Assisting in linking performance indicators to management reporting, performance evaluations, and 2011 Budget.
- ④ **Disaster Recovery Advisory Services** Key project director assisting several Houston area local governments with the FEMA public assistance and insurance claim recovery efforts related to Hurricane Ike. Reviewed and recommend refined operating policy and procedures related to both financial and operating needs in preparing for the event of future natural or man-made disasters.
- ④ **Municipal Bankruptcy Advisory Services** Key project consultant assisting Assured Guaranty Municipal Corporation with the financial review and analysis of Pendency Plans and financial/budgetary models for two recently filed municipal bankruptcy's (City of Stockton, CA and Harrisburg, PA). Providing financial analysis during the court-mandated mediation process as part of its Chapter 9 proceedings as well as pre-filing AB 506 mediation. In addition to advisory work.. Also providing analytic support to the credit insurer of various bonds financing the City of Harrisburg, PA.
- ④ **Business Valuation/Financial Advisory Services**

 - Project consultant for a cost of service analysis related to use of public right of ways related to the Kragnes, et al, v. City of Des Moines in the Iowa State Court in Des Moines related to the class of rate payers affected by an increase in franchise fees. The case had state-wide impacts on municipalities and taxpayers as to what

NANCY L. ZIELKE, SENIOR DIRECTOR

constitutes a tax, right-of-way valuation and cost of administering utilities in the right-of-way. A&M testified for Plaintiffs in this class action franchise fee/franchise tax matter to the value of municipal rights of way, incremental costs of maintaining the rights of way, budget and property tax analyses.

- Project manager and expert witness for the City of Louisburg, Kansas in the Rural Water District No. 2 of Miami County Kansas v. City of Louisburg matter to analyze Plaintiffs' claims in this matter. Analyzed the effects of a series of annexations by the City on Rural Water District No. 2 and the financial impact with the acquisition of the assets.

State and Local Government Financial Administrative Experience

Local Government Experience

City of Kansas City, Kansas (Unified Government of Wyandotte County/Kansas City, Kansas)

Served as the Finance/Budget Director for the City of Kansas City, Kansas and the Unified Government of Wyandotte County from 1984 to 1997. More than 15 years of administrative oversight of financial management service functions including long debt management, budget and capital planning, payroll, purchasing, accounting, treasury, business licenses, weights and measures, risk management, intergovernmental affairs, and city clerk programs. Major accomplishments and professional experiences include:

- **Annual Operating and Capital Budgeting** Experienced in developing, implementing and administering local government operating budget over \$250 million and five year capital maintenance and improvement plans. Worked with Citizens' Advisory Council in developing capital improvement and neighborhood priorities for master plans. Experienced in federal reporting requirements for Community Development Block Grants. Budget documents received the GFOA Distinguished Budget Award.
- **Revenue Forecasting and Modeling** Developed multi-year revenue models for local government revenues including general operating fund, special highway and park funds, and enterprise funds (sewer and Business Park, and golf course enterprise system) funds.
- **Economic Development and Fiscal Impact Statements** Prepared fiscal impact analyses related to tax exempt, tax increment, housing, and industrial revenue bond financing proposals. Provided fiscal impact and market studies on the economic and community impact of major retail, residential, commercial, and tourism related development projects.
- **Consolidation of Government Services** Member of the Executive Transition Committee for the Consolidation of Government. Developed and implemented shared service centers, transactional and process reviews, and consolidated financial reporting and systems.
- **Enterprise Resources Planning Systems** Project Administrator for implementation of new integrated financial management and budget planning information system applications. Process included development of request for information/proposal, contract negotiations, lease financing analyses, and project implementation.
- **Legislative Affairs and Expert Witness** Experienced as expert witness to state and federal legislative and regulatory agencies. Provided legislative liaison support for governmental entities monitoring and testifying to state legislation committees.

Kansas City, Kansas Board of Public Utilities

Served as the Assisted General Manager/Chief Financial Officer for the Kansas City Board of Public Utilities (KCBPU) from 1997 to 2001. Was responsible for the financial operations including all fiscal, customer service, information technology, business and management support services. Work responsibilities included oversight of cost of service studies, strategic planning, performance benchmarking, and debt financing initiatives. Major accomplishments and professional experiences include:

NANCY L. ZIELKE, SENIOR DIRECTOR

- **Annual Operating and Capital Budgeting** Experienced in the development, administration and execution of operating (\$330 million) and capital (\$600 million) budgets including multi-year financing plans for combined electric and water utility enterprise operation. Budget document received the GFOA Distinguished Budget Award.
- **Tax Exempt Revenue Financing and Debt Management** Experienced in developing and implementing utility enterprise revenue debt policies and financing plans for major capital construction and equipment needs, investment strategies, complex debt restructurings, and ongoing investor relationships. Successful working relationships with all three rating agencies in presenting financial, economic and community profile information to improve utilities ratings.
- **Enterprise Resource Planning Systems** Completed strategic plan for business technology needs for the combined utility system that identified system application and major software priorities. Implementation of utility billing system applications including the development of request for proposal, selection, contract negotiations, implementation plan. Identified opportunities and efficiencies of automated meter reading technology.
- **Cash Management and Investment** Experienced in the development and issuance of cash management policies and procedures, competitive bidding of banking services, and lockbox operations. Expertise in the calculation of arbitrage rebate policy and enforcement provisions.
- **Financial and Economic Impact Analyses and Studies** Completed financial analyses and efficiency studies including cost of service rate studies, administrative overhead cost allocation, outsourcing modeling, economic impact on development proposals, labor negotiations and arbitrations impact analysis, and business process reviews.
- **Corporate Financial Reporting and Accounting** Developed user friendly financial reporting and performance benchmarks for the combined Utility reporting system. Implemented a new chart of accounts that reflected cross reporting purposes for FERC and GAAP financial reporting needs. Annual comprehensive financial report received the GFOA Certificate of Achievement Award.

Professional Associations Former active member of the American Public Power Association. Served as the Vice Chairperson of the Business and Finance Section on General Accounting, Finance and Auditing.

Higher Education Experience

University of Missouri - Kansas City

Served as the Assistant Vice Chancellor for Fiscal Operations at the University of Missouri- Kansas City. In this capacity, responsible for fiscal service operations of the 14,000 urban student campus with direct oversight of fiscal services, (budget, accounting, financial reporting, accounts payable, accounts receivable cashier/bursar, student loans, and procurement), long term capital planning, revenue forecasting, coordination of internal audit reporting and other key administrative service functions. Major accomplishments and professional experiences include:

- **Higher Education Budgeting and Capital Planning** Experienced in the development, administration and execution of operating and capital budgets including tuition, ancillary student fees, rate and auxiliary support service pricing models. Developed appropriation requests and monthly/quarterly financial management reports. Worked with campus facilities management and Vice Chancellor Office in the development of the multi-year capital construction appropriation requests and financing plans.
- **Responsibility Center Management and Budgeting** Campus project leader for the Budgeting for Excellence initiative which designed a new budget process for strategic allocation of resources to achieve excellence and supports the vision and values of the Institution and deployment of a Responsibility Center Management budgeting process. Model and planning approach received the 2003 GFOA Awards for Excellence in Management Services
- **Outsourcing Business/Shared Services Process Implementations** Experienced in the review and development of outsourcing business models and implementation strategies. Developed outsourcing solutions for student loan

NANCY L. ZIELKE, SENIOR DIRECTOR

billing and collections and participated in the transactional review for outsourcing opportunities of printing services, housing, and bookstore operations. Reviewed opportunities for “shared service” business model applications.

- ***Certification of Internal Controls*** Developed financial certification process for all major department and divisions. Documentation of campus business policies and deployment of fiscal officer training and yearend financial statement/internal control certification program.
- ***Performance Management (Balanced Scorecard) Systems*** Deployment of “Balanced Scorecard” for administrative and financial service program areas linking operating performance to customer expectations and resource allocation decision making. Project was awarded 2006 GFOA Award for Excellence in Management Services.
- ***Enterprise Resource Planning and Financial Reporting Applications*** Project management experience in the implementation of PeopleSoft Financial and Student System Applications. Worked on intra-campus and System Office initiative for integrated (student, financial, and academic) reporting resulting in the creation of a data warehousing solution (Congas).
- ***Business Process Improvement Strategic Planning*** Successful implementation of business processes and redesign improvement initiatives to support key critical business functions, including accounts payable, accounts receivable, cashiers, student loans, procurement, payroll, fixed assets, student one card, and central financial administration. Approach and methodology was awarded the 2004 GFOA Award for Excellence.
- ***Trustee Endowment Financial Accounting*** Served as the appointed assistant treasurer for the financial reporting and investment oversight of Trustee related endowment and gift funds. Experienced in the selection of fund managers and SAS-70 internal control reviews.
- ***Professional Associations*** Former active member of the American Public Power Association. Served as the Vice Chairperson of the Business and Finance Section on General Accounting, Finance and Auditing.

Other State and Local Government Experience

- Government Finance Officers Association President (2004 – 2005) and Member of the Executive Board (2001 to 2006)
- State of Kansas (Governor’s Office/Department of Transportation: Policy Analyst/Governor’s Fellow (1982 - 1984)
- City of Coon Rapids, Minnesota: Management Analyst (1981 - 1982)
- University of Kansas Office of Business Affairs: Graduate Research Assistants (1980 - 1981)
- City of Adrian, Michigan: Department of Housing and Community Development Intern (1979 - 1980)
- Berrien County, Michigan: Extension Office 4-H Program Intern (1978-1979)

Testimony Experience

- State of Kansas Legislative Committees on Taxation, Appropriations, Ways and Means, Local Government, and Transportation and Utilities.
- United States Department of the Internal Revenue Service in arbitrage compliance.
- United States Federal Court on government official business practices.

NANCY L. ZIELKE, SENIOR DIRECTOR

Deposition and Expert Witness Trial Experience

- Miami County, Kansas District Court: Rural Water District No. 2 vs. City of Louisburg, Kansas. Represented Defendant – City of Louisburg, Kansas. 2011.
- United States Federal Court, Kansas City, Kansas: Expert government witness for the US vs. Joseph E. Steineger and Peter Adams.
- State of Kansas District Court related to labor mediations and fact finding proceedings.

Author of Selected Publications

- “Stepping Up: Finance Officers and the Leadership Imperative”, Government Finance Review, August 2004.
- “Revamping Businesses: Cutting Red Tape”, National Association of College and University Business Officers NACUBO Business Officer, July 2004.
- “Finding Opportunities Budgeting for Excellence: How the University of Missouri-Kansas City Transformed Its Budget Process Using the NACSLB Standards”, Government Finance Review, February 2004.
- “Year 2000 Technology Update - Review Roundup”, Government Finance Review, October 1999.
- “Priorities for Government Finance Officers: Highlights of Newly Elected Executive Board Members”, Government Finance Review, August 1999.

Professional Awards and Certifications

- Certified Emergency Manager - State of Michigan, Winter 2012.
- 2006 GFOA Award for Excellence in Management and Service Delivery – “Our Accountabilities Plan: A Five Star Plan for Excellence.”
- 2004 GFOA Award for Excellence in Management and Service Delivery – “A-B-C’s in Redefining Business Processes: Accountability in Financial Management.”
- 2003 GFOA’s Award for Excellence in Budgeting and Financial Planning – “Budgeting for Excellence: New Standards for Higher Education Financial Management.”
- GFOA Distinguished Budget Awards – City of Kansas City, Kansas and Kansas City Board of Public Utilities.
- GFOA Certificate of Achievement for Financial Reporting – Kansas City Board of Public Utilities.

Key Speaker/Panelist at Professional Conferences and Association Meetings

“Budgeting for Excellence: New Standards for Higher Education Financial Management”

- American Society for Public Administration Conference, 2004.
- National Association of College and University Business Officers Conference, 2004 and 2005.
- National Consortium for Continuous Improvement in Higher Educations, 2005.

Government Finance Officers Association (GFOA) Conferences and Training Seminars

- Best Practices in Local Government Financial Statement Presentations, 1991.
- Revenue Alternatives for Cities and States (Gaming Issues), 1992.
- Organizing Your Budget Office, 1993.

NANCY L. ZIELKE, SENIOR DIRECTOR

- Distinguished Budget Awards Program Criteria, 1994.
- Performance Based Budgeting, Baltimore, Maryland, 1995.
- Lease Purchasing and Financing Alternatives, 1996.
- Distinguished Awards Program Mandatory Criteria, 1997.
- Emerging Issues of Electronic Commerce, 1998.
- E-Government Strategies and Challenges, 2001.
- Emergency Disaster Recovery Planning, 2002.
- Leadership for the Future, 2004.
- Expanding the Frontiers of Government Finance, 2005.
- Finance Officer Leadership May 2006.
- Redesigning Business Process, May 2006.
- Use of Performance Measurements in Budgeting Applications, 1994.
- Planning the Sale of Municipal Bonds, 1997 – 2004.
- Finance Officers and the Leadership Imperative Leadership for the Future, 2004.
- Advanced Government Institute, 2004.
- Leadership for the Future, Annual Conference President's Address, 2005.
- Accountability in Changing Organizational Cultures, 2008.
- Predicting the Future: Using the Most Appropriate Forecasting Methods, 2009.
- Effective IT Governance Structures, 2012.

Midwest Regional Public Finance Conference and Kansas GFOA Conferences

- Fraud and Early Detection Practices, 1996.
- Developing Capital Plans, 1998.
- Emerging Issues of Technology and E-Commerce, 1998.
- E-Commerce and How It Changes How Governments Do Business, 1999.
- GFOA Standing Committee – How to Become Involved in GFOA, 2001.
- Finance as a Catalyst in Re-engineering the Organization, 2003.
- Business Process Reviews, Streamlining Organizations and P-Cards, 2007.
- Best Practices in Budgeting, 2008.
- The Other Side of Economic Development, 2008.
- Predicting the Future: Forecasting Strategies and Appropriate Approaches, 2010.
- Navigating Through Financial Difficulties, 2011.

Government Finance Officers Association - President

- President address at the 2005 Annual GFOA Conference.
- President-elect address at the 2004 Annual GFOA Conference.
- Keynote at more than 20 state GFOA Association meetings on GFOA's strategic initiatives and policy issues.
- Traveled internationally to speaking to various state and local government strategic financial issues and best practices

EXHIBIT B



Expert Report of

Nancy L. Zielke
Alvarez & Marsal
Public Sector Services, LLC

December 14, 2012

TABLE OF CONTENTS

I.	OVERVIEW OF ASSIGNMENT	3
II.	SUMMARY OF OPINIONS	3
III.	QUALIFICATIONS AND COMPENSATION	6
IV.	INSOLVENCY	8
V.	FINANCIAL AND SPENDING PRACTICES AND ECONOMIC CONDITION OF THE CITY	10
VI.	ANALYSIS OF STOCKTON'S REVENUES AND EXPENDITURE PROJECTIONS	27
VII.	FINANCIAL BUDGET ALTERNATIVES	33
VIII.	CONCLUSION	56
IX.	ACKNOWLEDGEMENT	57
X.	APPENDICES	58
	Appendix A	
	Appendix B	
	Appendix C	



I. OVERVIEW OF ASSIGNMENT

Alvarez & Marsal (“A&M”) was hired by Sidley Austin LLP on behalf of Assured Guaranty Corp. and Assured Guaranty Municipal Corp. (“Assured Guaranty”) to perform an analysis of the City of Stockton (“Stockton” or the “City”) to:

- ➊ Assess the solvency of the City within the meaning of Bankruptcy Code § 109(c)(3)
- ➋ Analyze the City’s historical, current and projected General Fund revenues and expenditures
- ➌ Identify additional revenue enhancements, cost containment initiatives, consolidation/shared services, and potential privatization and/or sale of assets within the City’s General Fund
- ➍ Examine best practices within municipal governments to address the City’s long-term financial and budget planning and accountability

II. SUMMARY OF OPINIONS

Stockton, through its own inaction and indecision, has budgeted itself into insolvency. The AB 506 process and the Chapter 9 filing could have been avoided had the City reduced operating expenses in the face of falling revenues, like many other cities facing similar challenges. The City’s repeated lack of action to streamline costs, cut non-essential services, outsource operations, sell or privatize underutilized city assets, and increase revenues worsened a manageable problem. The City left millions of dollars on the table in terms of additional budget efficiencies and revenue enhancements that could be achieved outside of bankruptcy without jeopardizing public safety. For instance, the City waited until December 4, 2012 – five months into bankruptcy – to request a hardship exemption from CalPERS – which could have reduced its payments in the current fiscal year by approximately \$1.25 million.

Further, the City’s own financial information cannot be trusted to demonstrate insolvency. Its long-delayed Comprehensive Annual Financial Report for the 2010-11 Fiscal Year (“FY 2010-11 CAFR”) reports nearly 40 material weaknesses and significant deficiencies. Although the City had initially claimed it needed to file for bankruptcy in late June because it would be out of money in early July, the City now reports that it beat its projections for the fiscal year ending June 2012 by over \$6 million and that the City was wrong in estimating approximately 10 principal categories of revenues and expenses. The City just does not have a reliable handle on either its current finances or its future finances. A lack of understanding itself does not create a fiscal crisis, but the City’s delayed financial reporting and inadequate financial controls illustrate that the City lacked a fair picture of the City’s finances in the lead-up to the Chapter 9 petition date and is still unable to generate accurate reporting and reliable projections. In fact, the City could implement significantly more cuts and push

for more reductions to offset the fiscal gaps experienced today, thereby averting the emergency situation. With these logical and proven actions, we demonstrate that budgeting oneself into insolvency is not the only option.

In this report we identify over \$24 million in cost-cutting measures the City could have implemented in its FY 2012-13 Budget and over \$9.5 million in combined revenue-generating activities Stockton could have and should have pursued. Even without Stockton's unexpected \$6 million surplus in 2011, the availability of these options to create a budget surplus undermines Stockton's claim of insolvency.

In short, City Management has no grasp on the City's finances. Moreover, City Management failed to take the following essential and logical steps to balance the City's current and future year budgets to avoid Chapter 9:

❶ Failed To Maximize Its Revenues.

The City did not identify and pursue opportunities to maximize revenues as property tax, sales tax and other revenues fell during the recent financial crisis. Even though it recognized years before seeking Chapter 9 relief that the City's spending was outpacing its revenues, Stockton has refused to act. Since 2010, the City has neither afforded its citizens an opportunity to vote on new taxes, nor included discussion of a tax increase on the City Council's public agenda, nor sought to charge for various services currently being afforded to its residents for free. Although Stockton shied away from testing any ballot initiative in recent years, 171 cities and counties in California passed tax and bond measures in last month's election alone, including 80% percent of general tax measures proposed. Stockton never gave its citizens a chance to vote for a measure that would avoid bankruptcy by raising revenue, or for a tax that would fund additional public safety or public improvements.

❷ Failed To Cut All Non-Mandated and Nonessential Costs.

The City failed to undertake the politically-unpopular work of distinguishing between "essential" and "nonessential" expenses and separating mandated services from non-mandated services, and, instead, has taken the politically-expedient course of continuing popular, but clearly non-essential, expenses. Even though the City knew that its finances were out of control no later than 2010, the City continued to fund unneeded services and pay above-market wages and benefits in FY 2011-12. Even a cursory review of its current budget shows that the City continues to fund similar fiscally irresponsible spending practices. Along with continuing to fund nonessential services, the City also failed to exhaust all its options in cutting department spending and did not explore alternative opportunities such as privatization or consolidation.

Failed To Produce Timely or Accurate Financial Reports.

Despite years of attempting to get its “fiscal house in order,” Stockton to this day remains unable to produce accurate financial reports within a reasonable time period, even to its City Council or senior staff. Although the importance of understanding mistakes made in the past cannot be overemphasized, the City’s focus on cleaning up past errors has come at the expense of producing accurate and timely financial reports to the City Council this year. The City has just produced its audited CAFR for FY 2010-11 even though it is well past the deadline, its reports have contained numerous accounting errors and other problems requiring restatement, and its beginning fund balances have continually changed throughout the AB 506 process and its Chapter 9 case. Due to these reporting errors, it is difficult to believe the City understands its own cash position, and that that anyone in City Management had “an accurate picture of revenues and expenditures” in the lead-up to bankruptcy (or since). Thus the City cannot reasonably expect either creditors or this Court to accept at face-value its financial information. As illustrated by the City’s latest financials, even the City’s short-term projections are consistently untrustworthy and cannot be the basis for reasoned decision-making or future projections.

Failed To Adopt Government Best Practices In Financial Management and Budget Policies.

The City has not adopted best practices in financial management and budget planning policy. Best practices in local government financial management emphasize the importance of producing both accurate and timely financial reports that meet the needs of decision makers. In Stockton there is a lack of institutional knowledge and accountability within senior management positions on current financial conditions. As a result, City Management and the City Council remain in the dark about the City’s true financial condition.

Section VII of this report sets forth a Revised Baseline Budget Alternative Model that outlines detailed revenue and expense budget alternatives that balance the City’s budget while maintaining essential city services and increasing its General Fund balance moving forward. A summary of that model is set forth in Table 1 below:

TABLE 1. SUMMARY OF REVISED BASELINE BUDGET ALTERNATIVE MODEL

Summary of Alternative Model Baseline Budget			
	FY 2012-2013	FY 2013-2014	FY 2014-2015
City's FY 2012-2013 Proposed Baseline Budget			
Baseline Revenues	\$ 155,448,405	\$ 154,842,002	\$ 156,405,796
Baseline Expenditures & Fiscal Stability Adds	180,535,693	191,590,548	202,751,176
City's Projected Ending Fund Balance	\$ (25,087,289)	\$ (36,748,546)	\$ (46,345,380)
New Revenue Opportunities			
Recurring New Revenue Opportunities	\$ 9,565,829	\$ 34,938,317	\$ 35,625,701
Total New Revenue Opportunities	\$ 9,565,829	\$ 34,938,317	\$ 35,625,701
Spending Reduction Alternatives			
Department Budget Reductions	\$ (8,850,300)	\$ (11,224,076)	\$ (11,878,365)
Restructuring of Employee Personnel & Benefits	(11,978,737)	(10,853,911)	(10,879,019)
Revised Contract Payments & Loan Debt	(732,000)	(784,701)	(784,701)
Reduce Reinstated Fiscal Stability Measures	(2,879,016)	(2,345,371)	(12,138,325)
Consolidation or Privatization of Services	-	(494,976)	(494,976)
Total Spending Reduction Alternatives	\$ (24,440,053)	\$ (25,703,035)	\$ (36,175,386)
Projected Beginning Fund Balance *	\$ 6,158,291	\$ 15,076,884	\$ 38,969,691
Projected Ending Fund Balance	\$ 15,076,884	\$ 38,969,691	\$ 64,425,397

* Projected Beginning Fund Balance as of July 1, 2012 (FY 2011-2012 Unaudited Actual Report)
The above amount is inclusive of the additional \$566,000 the City targeted for Chapter 9 expenses.

III. QUALIFICATIONS AND COMPENSATION

I am a Senior Director in A&M's Public Sector Services practice in Kansas City, Missouri. Founded in 1983, A&M has over 40 offices in the United States and 17 international locations with 2,000 professionals providing consulting services to public and private sector clients around the globe. We are one of the fastest growing, independent global professional services firm. A&M provides financial and operational restructuring, agency modernization and project turnaround, performance improvement, crisis management, large-scale program management, asset management and real estate, financial management, supply chain management and IT strategy/planning solutions to our clients.

Alvarez & Marsal is renowned for commercial restructuring assignments including interim management of Lehman Brothers' post-bankruptcy declaration. In addition to high-profile assignments for public and private corporations, Alvarez & Marsal has served the public sector since 2003. We became the first known

traditional corporate restructuring firm engaged to restructure a public entity, St. Louis Public Schools, which was on the brink of bankruptcy. We have since led other high-profile financial and operational restructuring engagements for the New Orleans Public Schools in the midst of Hurricane Katrina, the State of South Carolina Department of Health and Human Services, the Kansas City, Kansas Board of Public Utilities, the US Virgin Islands, the New York City Department of Education, the Los Angeles Unified School District, and the District of Columbia Public School system, among many others. Most recently, we were confidentially engaged by a U.S. governor to address deficit issues across state agencies that were immediately impacting bond ratings and were affecting the long-term delivery of public services in safety, healthcare, and education.

A&M is currently involved in several high-profile distressed municipal matters and understands the complex dynamics of troubled city finances. Our professionals have experience working with Harrisburg, Pennsylvania, Mammoth Lakes, California, Jefferson County, Alabama, and Nassau County, New York. Whether handling the largest bankruptcy in U.S. history, Lehman Brothers Holdings, developing a financial solvency and sustainability plan for the Detroit Public Schools' budget, or managing the rebuilding of the New Orleans Public Schools after Hurricane Katrina, Alvarez & Marsal has consistently built on its reputation for improving the operational and financial performance of both private-sector companies and public-sector organizations.

As the principal author of this report, my professional background includes both serving as financial advisor and consultant to a wide range of public-sector organizations. As part of my consulting work, I have served as a financial and economic advisor to municipalities, school districts, state governments, and public utilities on a variety of issues including financial analyses, pro forma budgets, deficit elimination plans, long-term revenue and expense projections, and operational and efficiency improvement studies.

Prior to joining A&M, I spent 25 years working within several city, county, and state government entities in key financial administrative positions including the Finance/Budget Director for the City of Kansas City, Kansas; Assistant General Manager of Finance for the Kansas City, Kansas Board of Public Utilities; and the Assistant Vice Chancellor for Finance with the University of Missouri-Kansas City. I also served as the elected National President of the Government Finance Officers Association ("GFOA") of the United States and Canada. I earned a Master's degree in Public Administration from the University of Kansas and a Bachelor of Arts in Business Administration with a major in economics and marketing. Most recently I became a certified Emergency Manager through Michigan State University. A copy of my résumé is attached as Appendix A.

A&M will be compensated for my work in this matter at an hourly rate of \$450. I have supervised other A&M employees who assisted in research and document production of this expert report and will be compensated

for their work at industry rates. Since our assignment is not complete and may entail testimony at deposition or trial, as of now, it is not possible to determine the total compensation to be paid to my firm for this engagement. My report may also be updated in the future based on further discovery documents provided by the City.

IV. INSOLVENCY

Bankruptcy Code § 109(c)(3) provides that a municipality is eligible to be a Chapter 9 debtor “if and only if . . . [it] is insolvent.” Section 101(32)(C) defines “insolvent” for purposes of Chapter 9 as “financial condition such that the municipality is--(i) generally not paying its debts as they become due unless such debts are the subject of a bona fide dispute; or (ii) unable to pay its debts as they become due.” As set forth below, Stockton has failed to produce reliable evidence that it was insolvent as of June 28, 2012, or that it will be unable to pay its debts as they become due in its current fiscal year.

Stockton’s financial reporting remains seriously flawed and inherently unreliable. The City’s own financial information cannot be trusted to demonstrate insolvency. Last week, the City staff presented to the City Council for its approval the year-end numbers for FY 2011-12. Casting still more doubt on the City’s understanding of its finances, this report shows that the City actually ended FY 2011-12 with a General Fund surplus of over \$6.2 million. In comparison, the approved Pendency Plan anticipated an available balance of \$0.0 at the end of FY 2011-12.¹ In addition, FY 2012-13 first quarter results show revenues coming in ahead of targets, while expenditures have been below budgeted amounts.

This illustrates City Management’s lack of ongoing monitoring and proper reporting of the financial condition of the City. By late June, the City should have been able to forecast estimated personnel cost savings and estimated revenues. Had the City been monitoring revenues and expenses on a monthly basis and been current with its accounting allocations, it should have been able to detect these trends and budget variances in the development of the FY 2012-13 budget. In short, the City does not have a reliable handle on either its current finances or its future finances.

The City’s FY 2010-11 CAFR reports nearly 40 material weaknesses and significant deficiencies. And although the City had initially claimed it needed to file for bankruptcy in late June because it would be out of money in early July, the City now reports that it beat its projections for the fiscal year ending June 2012 by over \$6 million and that the City was wrong in estimating approximately 10 principal categories of revenues and

¹ City of Stockton Fiscal Year 2011-12 General Fund Year-end Results, December 11, 2012

expenses. For example the following items were not disclosed in the February 2012 Staff Report, Pendency Plan or any reported monthly/quarterly FY 2011-12 budget reports:

- Adjustments to the FY 2011-12 beginning fund balance were made after the presentation of the February 28, 2012 staff report and FY 2012-13 Proposed Budget
- Unrecognized rental inspection income which started during the fourth quarter
- Failure to report accurate personnel and maintenance reported savings within department budgets with the submission of the Pendency Plan
- Increased debt administration costs without a revised spending plan
- Shortfall in business licenses during the last quarter that were not detected in time to include in the estimates provided in the Pendency Plan
- Lack of controls to managed capital improvement accounts
- Inaccurate payments based on the use of outdated schedules
- Errors in health trusts accounting
- Inability to project and report growth in actual sales tax revenues paid monthly to the City

A&M questions why these adjustments and revised projections were not reported in the February 28, 2012 Staff Report, the June 2012 Pendency Plan, and the September 2012 Budget Amendment for FY 2012-13. As the City is now reporting a positive ending fund balance, this information suggests that the City had a budgeted fund balance available on July 1, 2012 to meet payroll and other General Fund obligations.

A&M also questions the City's ability to prepare basic cash flow projections. The City prepared a one-year cash flow projection on July 2, 2012 to project month-to-month of amounts of cash its plans on receiving or spending throughout the year. We could not determine if the City had ever prepared cash flow projections beforehand. The cash flow projections did not include a final beginning cash balance as of July 1, it was based on budgetary projections and it did not include any analysis with year to date actuals. Other major concerns with the projections include:

- Expenditures for salaries will vary according to timing of hires and the separation of employees. Additionally, the cash flow projections did not assume the hire of vacant positions.
- Cyclical revenues, such as hotel/motel tax and fines and forfeitures, are also flat lined even though they have historical receipt patterns that would dictate varying payments each month.
- The City fails to account for multiple adjustments that have been made for the prior year. As mentioned in the First Quarter Budget Update, additional revenues and expenditures savings were both recognized past the end of the fiscal year. There is no factor in the model for the

multiple adjustments the City continues to make at the end of each fiscal year, making it difficult to trust the City's projections.

As a result, we were unable to find whether the City has missed any payrolls since July 1, 2012, or determine whether it was cash flow insolvent on or prior to June 30, 2012.

We also question management's accountability over the City's review process to ensure that programs and departments do not overspend. It appears there are no controls in place as the large volume of adjustments indicates that there is a lack of knowledge or action by senior City employees as spending occurs.

Like most other California and United States cities, Stockton pools its cash for investment purposes. While the City indicated that it was balancing its bank accounts each month, we were unable to validate either the June 30, 2012 or October 31, 2012 actual cash balances or budgeted General Fund fund balances.

Finally, as discussed in Section VII, the City had numerous budget amendments for both the FY 2011-12 and FY 2012-13. The City did not demonstrate it took all necessary action to ensure solvency as it never took essential and logical steps to balance its current and future year budgets in an effort to avoid the pending bankruptcy process.

V. FINANCIAL AND SPENDING PRACTICES AND ECONOMIC CONDITION OF THE CITY

A. Weakness in City's Financial Planning and Accountability for Financial Sustainability

Under City Charter section 1910, "at the conclusion of each fiscal year, a Comprehensive Annual Financial Report (CAFR) shall be prepared in sufficient detail to show the financial condition of the City's funds for the preceding year." Although fiscal year 2010-11 ended on June 30, 2011, the City's financial statements were just released on December 5, 2012. In its Memorandum on Internal Controls and Required Communications for Fiscal Year 2010-11, the City's outside auditor, Maze & Associates, reported 12 material weaknesses and 25 significant deficiencies, including:

- Inaccurate financial reporting in prior years required restatement and correction of beginning balances of numerous account balances
- Facts indicate a lack of diligent application of appropriate procedures and accounting theory in prior years
- Staff had procedural breakdowns which resulted in errors such as lack of comparison of sub ledgers to general ledger balances for certain receivables

- Ⓜ Lack of upkeep or upgrade of the financial system created highly labor intensive effort that raised the risk of error, increased effort to ensure accuracy, and significantly delayed report issuance
- Ⓜ There was no evidence that analyses had been prepared nor allowances established for loans receivable in foreclosure or default, or for interfund balances
- Ⓜ Not all receivable balances were reconciled to sub ledgers and adjusted as part of routine year-end closing procedures requiring correction of balances
- Ⓜ There was a reversal of prior year liabilities due to a lack of thorough analysis of ending balances
- Ⓜ There were several internal control weaknesses at four of the 39 remote sites (which were chosen for the audit because they are material to the City's financial statements), increasing the risk of error and fraud
- Ⓜ Lax enforcement of journal entry reviews
- Ⓜ Accrued interest had not been recorded on loans from property owners leading to an understatement of receivables balance
- Ⓜ Controls and processes are not receiving operational scrutiny
- Ⓜ Staff have a lack of understanding on Indirect Cost Plans and does not uniformly charge indirect costs leading to under billing for costs that might be eligible for reimbursement
- Ⓜ The City's FY 2010-11 annual budget and year-end financial reporting are inconsistent making budgetary compliance difficult
- Ⓜ The evaluation of subsequent activity and billing cycle procedures were not present leading to an understatement of receivables balance
- Ⓜ Double counting of parking citation revenues and procedural problems led to a misstatement of cash balances
- Ⓜ Controls over the City's cash accounts are insufficient and staff may not detect errors or fraud in a timely manner
- Ⓜ Prior year calculations of remediation liabilities include mathematical errors which understated liabilities
- Ⓜ There is no indication that the City completed a review of check registers before processing checks raising the potential risk of undetected errors or fraud
- Ⓜ The City is out of compliance with its own capitalization policy including the expensing of capital assets leading to an understatement of capital assets

- Depreciation is not being calculated correctly
- The parking meter revenue collection process lacks sufficient oversight increasing the risk for misappropriation of cash
- Underreporting of cash and activity balances increases the risk of unauthorized activity
- Lack of prompt recording of cost disallowances led to an overstatement of receivables
- Inadequate segregation of duties led to an increased risk that errors or fraud could occur or go undetected
- Lack of routine reconciliations led to omissions of financial transactions and an understatement of accounts receivable by the library fund of \$3.4 million

Additionally, the recently released FY 2010-11 CAFR, identified “Prior Period Adjustments,” totaling \$15.1 million within the General Fund of which \$4.1 million was a result of prior year accounting errors and duplication of accounting entries, and \$10.9 million was the result of allowances for interfund loan losses.

It is obvious that Stockton’s financial management structure is in need of major fiscal repair and overhaul. Stockton has struggled to control costs amid a severely weakened local economy and its struggle has been compounded by prior year accounting errors.

The City Manager has known about these issues for a long time. The former Chief Financial Officer Susan Mayer stated in a letter to the Deputy City Manager in September 2011, “Financial planning and reporting failures have misrepresented the City’s condition and left the City on the brink of insolvency,” and, “the depth of department challenges approaches gross negligence that have built up over the past years and decades.” Ms. Mayer’s letter is a prime example of the City’s inefficiencies in producing timely and accurate financial reports.

On February 28, 2012, City Manager Bob Deis presented to the City Council a fiscal condition update for Fiscal Years 2010-11, 2011-12, and 2012-13. He recommended fund transfers and actions to balance prior years’ budgets. Subsequently, Mr. Deis identified a projected \$20 to \$38 million deficit for FY 2012-13. His final recommendation was that the City should suspend debt service payments and commence the AB 506 process to avoid insolvency. He states, “It is apparent that past financial practices of former City staff and possibly contractors, which were

not disclosed to the Council, have contributed to the City's current financial situation. Given the grave consequences now being faced by the City, the City Manager, and City Attorney wish to investigate these practices for possible recourse." To date, however, the City has made no public findings regarding this investigation nor issued any remediation policies or guidance to prevent such misconduct in the future.

B. Timeliness of Financial Reporting

On April 2, 2012, State of California Comptroller John Chiang directed his office to begin an audit investigation into the financial practices and reporting of the City under Government Code sections 12464(a), 12468, 12410, and Health and Safety code section 34167.5. The following are annual requirements contained in the State provisions that the City failed to meet:

- ④ Filing of the Annual Financial Transaction Report for FY 2010-11 and FY 2011-12, which was due on or before October 18th following the end of the fiscal year.
- ④ Filing of the Annual Redevelopment Agency's Financial Transaction report for FY 2010-11 due on or before December 31, 2011, and the FY 2011-12 Report, due on or before December 31, 2012.
- ④ Filing of the Annual Street Report for FY 2010-11 and FY 2011-12, due on or before October 1st following the end of the fiscal year.

The State Comptroller's Audit is also reviewing fund deficits that were recently stated in FY 2008-09, as "the emergence of such deficits in such a short time raises concerns about the reliability and accuracy of the information in the FY 2009-10 reports." The results of this audit are still pending and will be important in the implementation of reforms and a recovery plan for the City.

C. Industry Practices in Financial Reporting

One of the challenges in determining the City's current financial position is the lack of current financial information, actual cash position, and budgetary performance information. Stockton has just issued its annual financial report for the year ending June 30, 2011, and a preliminary unaudited budget to actual variance report as of June 30, 2012. In fact, the current CFO, Vanessa Burke, indicated in her deposition on November 15, 2011, that the City had not closed

its monthly financial periods since May 2012 for FY 2011-12. Ms. Burke also indicated that the City does not prepare routine budget-to-actual reports for the City Manager and City Council to monitor the City's financial performance, but only "periodic reports" on an inconsistent basis.

The Government Finance Officers Association (GFOA's) 2008 Best Practices guidelines, titled "Improving the Timeliness of Financial Reports," explain that "financial reports are intended to meet the needs of decision makers. Accordingly, timeliness was identified as one of the characteristics of information in financial reporting in Concepts Statement No. 1 of the Governmental Accounting Standards Board (GASB), Objectives of Financial Reporting. To accomplish this objective, financial reports must be available in time to inform decision making. Therefore, financial reports should be published as soon as possible after the end of the reporting period."²

When dealing with "unforeseen circumstances," GFOA recommends that the "financial report preparation process and the independent audit identify items that could affect the amounts reported in the financial statements (e.g., lawsuits; legal or contractual violations that include a monetary penalty; instances of potential or actual fraud or abuse). Considerable time may be needed to definitively resolve such items. In such cases, the inherent uncertainty should not unduly delay the financial report preparation process and the independent audit. Accordingly, it often is better to proceed with the issuance of the financial statements based upon estimates, rather than to delay their issuance."³

A&M's research found that best practices guidelines across various California cities and other cities in the United States include recommendations for the preparation of quarterly and/or monthly financial reports identifying revenues and expenditures (and in some cases encumbrances) to keep decision makers informed about the financial condition of the City.

Examples of the types of content for quarterly and/or monthly financial reports include:

- Overview of year-to-date discussion on City's financial performance

² GFOA 2008 Best Practice on Improving the Timeliness of Financial Reports

³ Ibid.

- ④ Report on investment activity and cash balances by major fund appropriation and/or each fund (Note: Stockton did produce such investment and cash reports in prior fiscal years but not in a timely manner)
- ④ Comparison of budget to actual year-to-date revenue collections by major fund appropriation
- ④ Comparison of expenditures by major fund appropriation (budget to actual spending-to-date by expense category and by department)
- ④ Status of employee position inventory
- ④ Status of capital projects
- ④ Changes in local economic factors (housing starts, unemployment, sales taxes, change in property values)

We did note, however, that the City staff did prepare a year-to-date actual budget variance report for the City Council dated December 11, 2012. The report was a first step in providing the City Council needed financial information. At the same time, many of the above noted financial reporting components were still missing.

Based on my professional experience as a former local government Budget Director and CFO and my discussions with current government finance professionals, I understand that local governments typically close each month's financial accounting periods within five to ten days after the month's end. The City is not closing its financial accounting periods in a timely manner and is not producing formal regular budget-to-actual financial performance statements, cash positions, or any of the above identified reports to City Council on a monthly or quarterly basis.

A&M questions how the City Council can understand the City's financial position without monthly budget-to-actual, fund or cash statement, and similar reports. In fact, when Ms. Burke, the City's CFO, was asked during her deposition about the current General Fund cash and budget fund balances as of June 30, 2012, and more currently as of October 31, 2012, Ms. Burke was unaware of the balance of these funds. The City's lack of current or timely financial reports makes it difficult to properly assess the financial condition of the City.

The Stockton City Council has adopted financial policies establishing minimum target levels of unreserved fund balance to be maintained in the various funds. These policies, adopted in 2006, protect the City's financial exposure against severe unforeseen emergencies and economic uncertainties and are an important component of the City's long-term financial management.

In the City's "Capital Financing and Debt Management Policy", the City outlines its general policies for financial management. One important capacity policy is as follows: "The City will carefully monitor its levels of general-purpose debt. In evaluating debt capacity, general purpose supported debt service will not exceed 7% of the total General Fund budgeted expenditures and transfer out." Likewise, the City is not at risk of exceeding its legal debt limit. Pursuant to California Government Code section 43605, the City has a legal debt (General Obligations only) limitation not to exceed 15% of the total assessed valuation of taxable property.⁴

At the same time, GFOA⁵ recommends that cities like Stockton also have detailed financial management policies in place to support sustainable and accountable organizations. We did not see where the City had these best practices in place. Without City Council safeguards including these approved policies, there is no basis for long-term and sustainable financial stewardship. Examples of best practices recommend that jurisdictions should have City Council approved policies that address:

- **Financial Planning Policies.** These policies address both the need for a long-term view and the fundamental principle of a balanced budget.
- **Revenue Policies.** Understanding of the revenue stream is essential to prudent planning. These policies seek stability to avoid potential service disruptions caused by revenue shortfalls.
- **Expenditure Policies.** The expenditures of jurisdictions define ongoing public service commitment. Prudent expenditure planning and accountability will ensure fiscal stability."

⁴ FY 2009-10 CAFR

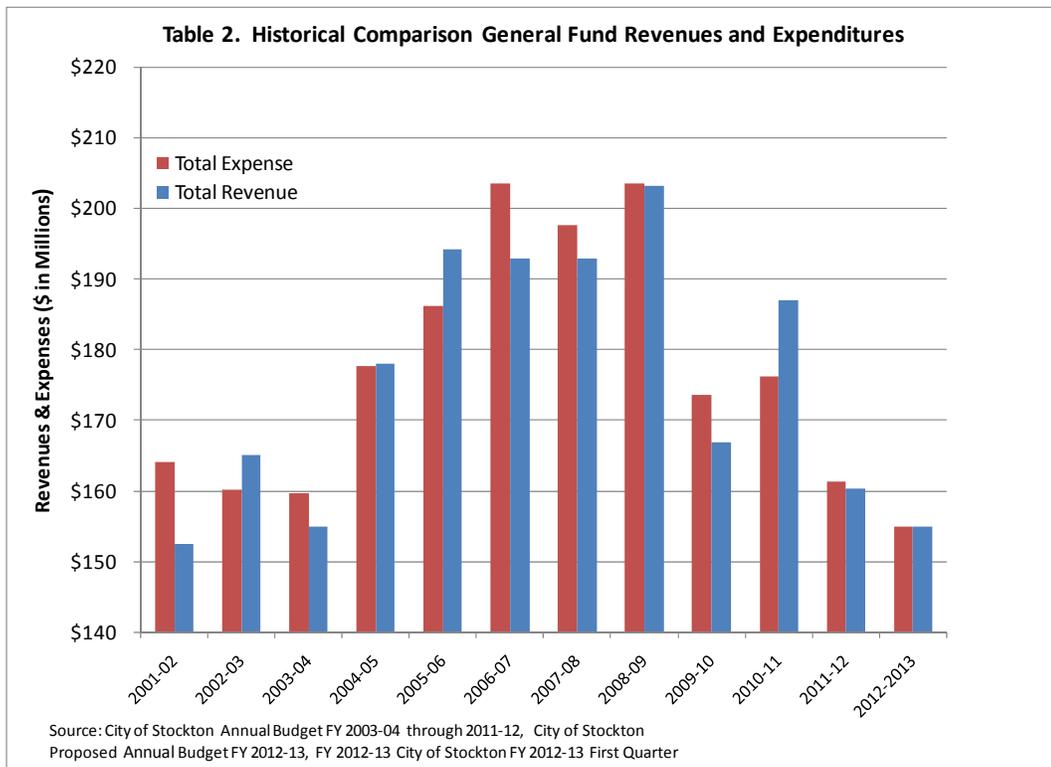
⁵ GFOA Recommended Financial Management Policies (National Association of State and Local Government Budgeting Report)

Local government best practices that were missing from the City included:

- Balanced Budget
- Long-Range Planning
- Asset Inventory
- Revenue Diversification
- Fees and Charges
- Use of One-time Revenues
- Use of Unpredictable Revenues
- Reserve or Stabilization Accounts
- Operating/Capital Expenditure Accountability

D. Current Trends with Stockton’s General Fund

A&M reviewed City budget documents from FY 2001-02 through the proposed FY 2012-13 (baseline budget). As shown in Table 2, from FY 2003-04 to FY 2006-07, the City experienced a \$41.2 million increase in General Fund revenues excluding transfers in and loan repayments. This large increase in revenues, a result of the economic boom in the 2000s, allowed the City to increase General Fund expenses, particularly in employee services, during the same period.



During this time period, total expenses increased by \$43.8 million, of which employee services accounted for \$29.4 million or 67% of the increase.

During the mid-2000s, Stockton also accumulated a General Fund surplus that enabled the City to begin operating with a small annual revenue deficiency.

In FY 2009-10, after the economic crisis hit California, revenues decreased by \$36.2 million. As revenues decreased significantly in FY 2009-10, the City decreased expenditures and cut services to maintain General Fund balances. The City now projects further revenue deficiencies moving forward; however, the City has failed to reduce expenditures at the same rate that revenues declined.

We found that the City did transfer monies into the General Fund from other fund appropriations. As shown in Table 3, “budgeted” interfund transfers for the past 12 years, the General Fund used monies from other funds to fund General Fund expenditures. Many of these transfers were interfund loans that had to be repaid at a later date. As the City’s revenue declined beginning in FY 2009-10, the City decreased the amount of funds transferred to the General Fund.

TABLE 3. COMPARISON OF INTERFUND TRANSFERS TO GENERAL FUND

Comparison of Interfund Transfers to General Fund - Baseline Proposed Budget												
Fiscal Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Gas Tax Fund	\$ 4,353	\$ 4,438	\$ 4,610	\$ 4,886	\$ 5,068	\$ 5,347	\$ 5,474	\$ 5,321	\$ -	\$ -	\$ -	\$ -
Development Services	-	-	-	1,860	1,845	1,619	1,200	175	-	-	-	-
Redevelopment Agency	125	175	185	185	60	-	-	-	-	-	-	-
Boat Launching Fund	-	1,607	-	-	-	-	-	-	-	-	-	-
Water Fund	1,021	1,607	1,671	1,793	1,967	795	-	-	-	-	-	-
Wastewater Fund	357	1,705	1,868	2,532	2,615	2,282	-	-	-	-	-	-
Stormwater Fund	323	358	670	705	761	385	-	-	-	-	-	-
Central Parking District Fund	-	-	-	-	-	-	-	774	775	604	775	772
City Building Debts Proceeds Fund	-	-	-	-	-	-	-	-	-	170	-	-
Information Technology Fund	-	-	-	-	-	-	-	-	-	1,200	-	-
Total	\$ 6,180	\$ 9,890	\$ 9,004	\$11,962	\$12,316	\$10,428	\$ 6,674	\$ 6,270	\$ 775	\$ 1,974	\$ 775	\$ 772

Source: City of Stockton Annual Budget FY 2003-04 through 2011-12, City of Stockton Proposed Annual Budget FY 2012-13

In review of major cost drivers for the City’s budget we examined the trends in Personnel Services. The report “Employee Total Compensation - Over \$200,000 Calendar Years 2007,

2008, 2009⁶ details the compensation structures for those individuals earning in excess of \$200,000 in total compensation⁷ for three years prior. The report showed that:

- ④ In CY 2007 there were 189 individuals receiving between \$200,000 and \$424,899 in total compensation. These individuals received a combined total of \$41.2 million in total compensation. When comparing this to the FY 2007-08 actual personnel expenses of \$147.1 million, these individuals comprised 28% of the total budget.
- ④ In CY 2008 there were 150 individuals with compensation between \$200,000 and \$521,102. These individuals received a combined total of \$34.4 million in total compensation. When comparing this to the FY 2008-09 actual personnel expenses of \$141.0 million, these individuals comprised 24% of the total budget.
- ④ In CY 2009 there were 161 individuals with compensation between \$200,000 and \$348,724. These individuals earned a combined total of \$33.1 million in total compensation. When comparing this to the FY 2009-10 actual personnel expenses of \$126.6 million, these individuals comprised 26% of the total budget.
- ④ Furthermore, when comparing the number of highly compensated individuals in CY 2009 (161) to the total staffing levels in FY 2009-10 (1,103), A&M found that one in seven individuals paid from the Stockton General Fund received over \$200,000 in total compensation.

We note that one of the primary drivers for increased spending over the review period was related to Employee Services. Over 70% of the annual General Fund Employee Services or Personnel spend is related to Public Safety (police and fire departments). The following section provides an overview of the major cost drivers for Public Safety.

1. Public Safety Spending Analysis

Table 4 analyzes spending per Full Time Equivalent (“FTE”) across peer cities. Stockton spends a disproportionate amount per public safety employee. The table on the next page lists those peer cities and analyzes the personnel and total spend per FTE for Police and Fire in each City’s FY 2012-13 budget.

⁶ Exhibit STOCK209587: Employee Total Compensation

⁷ Total compensation is defined as any salaries, wages, and other job-related earnings, including but not limited to healthcare benefits, contributions to retirement plans, car allowances, cash and in-kind gifts, bonuses and awards, fringe benefits, childcare services, loans, and advance commission.

TABLE 4. COMPARISON OF POLICE & FIRE SPENDING PER FTE

Comparison of Police Spending per FTE - Based on FY 2012-13 Budget*							
	Stockton	Fresno	Bakersfield	Fairfield	Tracy	Modesto	Visalia
Total Personnel	\$ 83,952,058	\$ 123,312,300	\$ 61,615,946	N/A	\$ 19,260,620	\$ 36,284,856	N/A
Total FTE	549	950	505	184	127	302	196
Personnel Spend per FTE	\$ 152,918	\$ 129,802	\$ 122,012	N/A	\$ 151,658	\$ 120,149	N/A
Total Police Spend	\$ 101,320,283	\$ 144,745,500	\$ 71,676,072	\$31,284,000	\$ 22,231,490	\$ 48,198,767	\$ 29,340,800
Total Spend per FTE	\$ 184,554	\$ 152,364	\$ 141,933	\$ 170,022	\$ 175,051	\$ 159,599	\$ 149,698
Comparison of Fire Spending per FTE - Based on FY 2012-13 Budget*							
	Stockton	Fresno	Bakersfield	Fairfield	Tracy	Modesto	Visalia
Total Personnel	\$ 39,678,233	\$ 48,592,700	\$ 29,700,683	N/A	\$ 13,588,000	\$ -	N/A
Total FTE	205	352	196	62	76	163	81
Personnel Spend per FTE	\$ 193,552	\$ 138,146	\$ 151,534	N/A	\$ 178,789	\$ -	N/A
Total Fire Spend	\$ 46,333,121	\$ 58,615,900	\$ 33,417,838	\$13,568,000	\$ 15,229,200	\$ 24,458,566	\$ 13,260,200
Total Spend per FTE	\$ 226,015	\$ 166,641	\$ 170,499	\$ 218,839	\$ 200,384	\$ 150,053	\$ 163,706

* Peer cities data is based on final adopted budget FY 2012-13 and Stockton information is based on the Proposed FY 2012-13 Budget

Stockton spends \$9,503 more on total Police spend per FTE than the next highest city and \$7,177 more on Fire spend per FTE than the next highest city. When compared to other peer cities' average personnel spend per FTE, the City spends \$22,013 more on Police and \$37,396 more on Fire. Taking a look at the high spending figures per FTE for the City, it is clear that its costs associated with current employees and retirees are higher than its peers.

As shown in Table 5, over the past five years, total spending on Police has increased by \$1.5 million or 1.5%, while General Fund spending has decreased \$0.2 million or 0.3%. Although spend over the past five years has not changed significantly, the City decreased spend until FY 2012-13, when it increased its baseline budget by 7.6% for total spending and 11.7% for General Fund spending on Police.

Over the same time period, the City has decreased Police FTE by 18.8%, 17.3% for sworn positions and 21.6% for non-sworn positions. The General Fund experienced 128 cuts over the past five years, whereas the total FTE has only experienced 127 cuts, as special revenue funds have subsidized extra sworn positions as crime has increased. The additional spending can be explained partially by those special revenue funds, but General Fund spend on police has not decreased as significantly as other budget line items over the past five years even though its FTE count has decreased significantly.

TABLE 5. COMPARISON OF CITY OF STOCKTON POLICE DEPARTMENT SPENDING

Comparison of City of Stockton Police Department Spending										
Source: FY 2012-2013 Proposed Budget (Pages P-8 and P-9)										
	FY 2008-09	FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13		Five Year
	Actuals	Actuals	% Chg	Actuals	% Chg	Adopted	% Chg	Baseline	% Chg	% Chg
All Funds FTE	676	558	-17.5%	543	-2.7%	529	-2.6%	549	3.8%	-18.8%
Sworn Positions	444	351	-20.9%	344	-2.0%	343	-0.3%	367	7.0%	-17.3%
Non-Sworn Positions	232	207	-10.8%	199	-3.9%	186	-6.5%	182	-2.2%	-21.6%
General Fund	630	519	-17.6%	491	-5.4%	483	-1.6%	502	3.9%	-20.3%
Sworn Positions	398	312	-21.6%	292	-6.4%	297	1.7%	320	7.7%	-19.6%
Non-Sworn Positions	232	207	-10.8%	199	-3.9%	186	-6.5%	182	-2.2%	-21.6%
General Fund - Grant-Funded (3)	6	17	183.3%	31	82.4%	25	-19.4%	26	4.0%	333.3%
Sworn Positions	6	17	183.3%	31	82.4%	25	-19.4%	26	4.0%	333.3%
Non-Sworn Positions	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	0.0%
Special Revenue - Measure W	40	22	-45.0%	21	-4.5%	21	0.0%	21	0.0%	-47.5%
Sworn Positions	40	22	-45.0%	21	-4.5%	21	0.0%	21	0.0%	-47.5%
Non-Sworn Positions	-	-	0.0%	-	0.0%	-	0.0%	-	0.0%	0.0%
Total Personnel Spend	84,827,587	83,424,337	-1.7%	81,680,968	-2.1%	78,132,700	-4.3%	83,952,058	7.4%	-1.0%
General Fund	79,514,194	74,435,209	-6.4%	73,922,472	-0.7%	68,581,532	-7.2%	76,829,332	12.0%	-3.4%
Other Funds	5,313,393	8,989,128	69.2%	7,758,496	-13.7%	9,551,168	23.1%	7,122,726	-25.4%	34.1%
Total Spend - All Funds	\$99,815,903	\$96,261,974	-3.6%	\$95,636,022	-0.7%	\$94,163,788	-1.5%	\$101,320,283	7.6%	1.5%
General Fund	93,267,969	86,308,498	-7.5%	86,855,958	0.6%	83,306,025	-4.1%	93,023,477	11.7%	-0.3%
Other Funds	6,547,934	9,953,476	52.0%	8,780,064	-11.8%	10,857,763	23.7%	8,296,806	-23.6%	26.7%

- (1) Analysis assumes that the COPS Grant Funds were used for Personnel spending. No break out was provided in the FY 2013 budget; however the FY 2013 spending for Personnel costs matches the City's FY 2013 Baseline Budget. This analysis assumes that 100% of the Grant Funded (COPS and Law Enforcement Block Grant) positions are Sworn Officer positions.
- (2) Analysis assumes that Police Trust Funds are used for Other Operating purposes and not personnel spending.
- (3) Source - Pages P-8 and P-9 of the City of Stockton 2012-2013 Proposed Budget. The General Fund includes Police Grant-Funded FTE (See Page P-9).

As shown in Table 6 on the following page, similar to the above Police analysis, from FY 2008-09 through FY 2012-13, Stockton decreased the number of FTE positions associated with Fire by 33.4%. During the same time period, the City decreased total spend on Fire only by 14.3%.

Over the five-year period analyzed, the General Fund spending cuts constituted 93.4% of total spending cuts. From the data it is difficult to understand why the number of personnel cuts increased at a much faster rate than the rate at which expenditures decreased.

TABLE 6. COMPARISON OF CITY OF STOCKTON FIRE DEPARTMENT SPENDING

Comparison of City of Stockton Fire Department Spending										
Source: FY 2012-2013 Proposed Budget (Pages P-10 and P-11)										
	FY 2008-09	FY 2009-10		FY 2010-11		FY 2011-12		FY 2012-13		Five Year
	Actuals	Actuals	% Chg	Actuals	% Chg	Adopted	% Chg	Baseline	% Chg	% Chg
All Funds FTE	308	296	-3.9%	254	-14.2%	205	-19.3%	205	0.0%	-33.4%
General Fund Only	253	265	4.7%	226	-14.7%	177	-21.7%	176	-0.6%	-30.4%
Total Personnel Spend	\$ 47,611,865	\$ 47,454,142	-0.3%	\$ 47,242,672	-0.4%	\$ 40,279,783	-14.7%	\$ 39,678,223	-1.5%	-16.7%
General Fund	41,823,071	42,325,548	1.2%	41,615,013	-1.7%	35,228,975	-15.3%	34,217,683	-2.9%	-18.2%
Other Funds	5,788,794	5,128,594	-11.4%	5,627,659	9.7%	5,050,808	-10.3%	5,460,540	8.1%	-5.7%
Total Spend - All Funds	\$ 54,092,458	\$ 52,916,909	-2.2%	\$ 53,531,094	1.2%	\$ 45,785,527	-14.5%	\$ 46,333,121	1.2%	-14.3%
General Fund	47,782,434	47,500,662	-0.6%	47,618,852	0.2%	40,447,868	-15.1%	40,529,586	0.2%	-15.2%
Other Funds	6,310,024	5,416,247	-14.2%	5,912,242	9.2%	5,337,659	-9.7%	5,803,535	8.7%	-8.0%

(1) Analysis assumes that the Development Services funds were used for Personnel Spending. No break out was provided in the FY 2013 Baseline Budget; however the FY 2013 total spending for Personnel costs matches the FY 2013 Baseline Budget.

In both the Police and Fire Department spending analysis we question whether the disparity between the percentage of position reductions to overall personnel and total budget spend could be attributed to:

- Employee wages being annually adjusted at a higher rate than reduction
- Increasing employee insurance costs
- Adjustments in annual pension payments to CalPERS

In any event, it is difficult for us to understand why the City has decreased positions without decreasing a proportionate amount in spend. What this suggests is that the City still does not have control over the ever-escalating wages and pension benefits of its public safety employees, despite its claims to the contrary.

2. Pension Costs (All Funds)

Another major cost component in the City's budget is for pension payments. Over the past five years, the City's retiree and beneficiary payments have been increasing as both the number of retirees and average amount paid have increased. Not only are the number and amount paid increasing, but these figures are also increasing at an increasing rate in many cases.

Table 7 details the City's payments to public safety retirees and other retirees. It is important to note that all measures are increasing over time, and the City must find a way to manage the rising payments in the future as all projections show increased costs moving forward as well.

TABLE 7. COMPARISON OF CITY OF STOCKTON RETIREE & BENEFICIARY PAYMENTS

COMPARISON OF CITY OF STOCKTON RETIREE & BENEFICIARY PAYMENTS						
	June 30, 2006	June 30, 2007	June 30, 2008	June 30, 2009	June 30, 2010	June 30, 2011
SAFETY RETIREES						
Safety Retirees (1)	585	615	641	655	690	718
% Increase		5.1%	4.2%	2.2%	5.3%	4.1%
Average Annual Paid (1)	\$ 44,860	\$ 46,758	\$ 49,911	\$ 51,976	\$ 54,891	\$ 57,110
% Increase		4.2%	6.7%	4.1%	5.6%	4.0%
Actual Benefits & Refunds Paid (2)	\$25,521,827	\$27,198,749	\$30,392,390	\$33,135,020	\$36,449,013	\$39,234,682
OTHER CITY RETIREES						
Miscellaneous Retirees (1)	1,390	1,434	1,437	1,516	1,622	1,683
% Increase		3.2%	0.2%	5.5%	7.0%	3.8%
Average Annual Benefits (2)	\$ 12,251	\$ 12,711	\$ 13,361	\$14,925	\$15,709	\$16,541
% Increase		3.8%	5.1%	11.7%	5.3%	5.3%
Actual Benefits Paid (2)	\$16,337,528	\$17,713,350	\$18,958,327	\$21,000,684	\$24,671,196	\$27,208,149
		8.4%	7.0%	10.8%	17.5%	10.3%
TOTAL COMBINED RETIREES & BENEFICIARIES	1,975	2,049	2,078	2,171	2,312	2,401
% Increase		3.7%	1.4%	4.5%	6.5%	3.8%
Actual Benefits Paid	\$41,859,355	\$44,912,099	\$49,350,717	\$54,135,704	\$61,120,209	\$66,442,831
% Increase Combined Actual Benefits Paid		7.3%	9.9%	9.7%	12.9%	8.7%
NUMBER OF STOCKTON RETIREES WITH ANNUAL PAYMENTS OVER \$100,000 (3)						98
% of TOTAL RETIREES						4.1%
ANNUAL RETIREE PAYMENTS OVER \$100,000 (3)						\$ 12,163,140
% of TOTAL RETIREES						18.3%
Sources:						
(1) CalPERS Actuarial Valuation Report - Summary of Valuation - Annual Reports - Listing of Retired Members and Beneficiaries						
(2) CalPERS Actuarial Valuation Report - Annual Reports - Reconciliation of Market Value of Assets. Benefit Payments to Retirees and Beneficiaries (Item 6)						
(3) A&M Analysis from data extracted from CalPERS website - 2012.						

Prior to Chapter 9, the City made no effort to seek from CalPERS a reduction or modification of its PERS liability. By letter dated December 4, 2012, the City finally made a request for hardship funding extension. We estimate that the granting of such a request could save the City approximately \$4.5 million over the next three fiscal years.⁸

E. Improvements to the Local Economy

Although the City's economy is underperforming in comparison to the United States as a whole, and although the City's history of poor decision making has constrained its ability to drive revenue growth moving forward, there are signs that the local economy is improving, particularly in the past 12 months.

⁸ See Appendix B for calculations on Pension Hardship

1. Housing & Real Estate

An important indicator of the stability in local government funds is the price of homes in that locality. As the price of homes fell in the late 2000s, Stockton and other municipalities were significantly affected, as property taxes are the largest revenue source for many local governments. According to data issued by the California Association of Realtors, the median price for a single-family home in San Joaquin County—where Stockton is the largest city—in October 2012 was \$179,570, up 14.6% from \$156,710 in October 2011.⁹ Although this is far from the peak-level prices experienced the 2000s, this increasing figure is important in driving revenue growth moving forward. Along with the increase in home sales, the median time on the market for single-family homes in San Joaquin County decreased from 38.7 days to 23.1 days, meaning homes were sold at a significantly faster pace than the previous year. Even though an analysis of Stockton's economic conditions reveals hardships at a local level, recent data shows that efforts to stimulate the economy are beginning to show signs of success, and the outlook ahead is more favorable.

According to RealtyTrac,¹⁰ a leading online marketplace for foreclosure properties, Stockton currently has the highest foreclosure rate in the United States, as one in 67 of its households was subject to a foreclosure filing in the third quarter of 2012. This figure, three times the national average, illustrates the lack of stability in the housing market and the difficulties that Stockton's citizens are currently facing. The figure also demonstrates the improving economic climate, however, as it is 21% lower than the previous year. In the mid-year report issued by RealtyTrac in July, one in every 38 of Stockton's housing units was subject to foreclosure filing in the first half of 2012. This figure, although still the highest in the nation, decreased 13% from the previous six months and decreased 16% from the first half of 2011. The foreclosure data for the City of Stockton clearly show that the City continues to face difficulties, but at the same time shows encouraging signs as the City's economy appears to be improving significantly and recovering from historic lows.

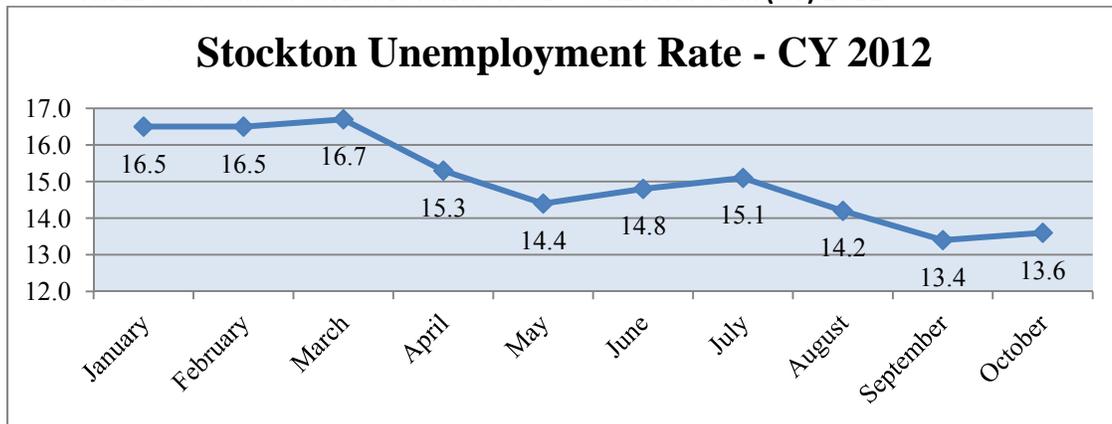
⁹ California Association of Realtors

¹⁰ RealtyTrac Midyear and Third Quarter Report

2. Unemployment and Wage Income

Another key indicator of economic performance, the unemployment rate, calculates the percentage of the total workforce that is unemployed but actively seeking employment and is a closely watched lagging indicator. As a lagging indicator, the unemployment rate is used to confirm trends in the economy. Below is a graph showing the 2012 unemployment rate for Stockton, California, issued by the U.S. Bureau of Labor Statistics:¹¹

TABLE 8. STOCKTON UNEMPLOYMENT RATE – CALENDAR YEAR (CY) 2012



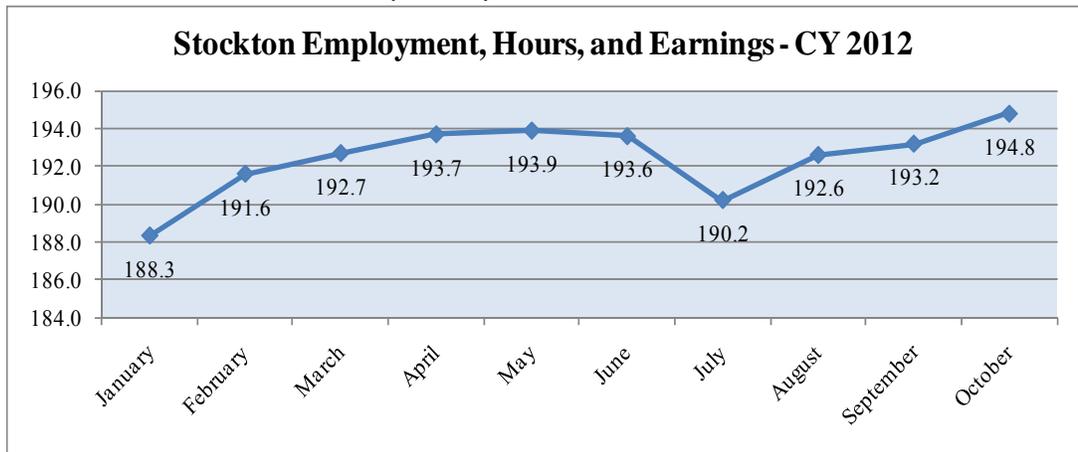
Source: Bureau of Labor Statistics

As shown in Table 8, Stockton’s unemployment rate has decreased significantly in the past ten months. Although the City’s rate is still high compared to the United States rate in October 2012, 7.9%, the decline of Stockton’s unemployment rate demonstrates increasing stability in the local economy and a favorable outlook for the future. Another important statistic used to determine the current state of the economy is the Nonfarm Payroll, which calculates the number of jobs for paid workers excluding general government employees, private household employees, and employees of nonprofit organizations that provide assistance to individuals and farm employees. Table 9 shows the increasing number of jobs in Stockton in CY 2012. As the number of jobs increases and the unemployment rate decreases, the City of Stockton should be able to increase and further stabilize revenues moving forward.

¹¹ U.S. Bureau of Labor Statistics



TABLE 9. EMPLOYMENT, HOURS, AND EARNINGS – CY 2012



Source: Bureau of Labor Statistics

3. Voter Approval for Revenue Enhancements

As revenues continue to decrease for municipalities in California, voters have become increasingly willing to support local tax and bond measures. In the November 2012 election, 71% of local tax and bond measures and 80% of city general tax measures passed on election night across California.¹²

In total, 171 cities and counties in the state passed tax and bond measures. According the National League of Cities, “the willingness of cities to embrace tax increases comes on the heels of six straight years of declining revenue.”¹³

In the City of Sacramento, for example, voters passed a measure to increase the sales tax by 0.5% to 8.25%. Sacramento had decreased its officers and civilian staff by over 300 employees since 2008. As a result of the tax increase, Sacramento is expected to raise an additional \$28 million that can be used to increase services, reversing previous cuts from a budget that has been cut by over 30% since 2008.¹⁴ With Stockton’s combined sales tax rate is currently at 8.0% and facing budget challenges moving forward, a sales tax increase would be an effective means to increase revenue immediately in order to continue providing essential services to its citizens.

¹²Governing, “Tired of Service Cuts, California Cities Raise Taxes”

¹³Ibid.

¹⁴Ibid.



VI. ANALYSIS OF STOCKTON'S REVENUES AND EXPENDITURE PROJECTIONS

A&M reviewed the City's current and prior year budgets, AB 506 Financial Plan, the September 11, 2012 Budget Amendment for the FY 2012-13 budget, the December 11, 2012 First Quarter General Fund Status Report, and the instructions for Departments in the development of the FY 2012-13 General Fund Budget.

A&M did not find where the City performed any survey or prioritization of city services to determine what services are essential versus services that are nonessential for citizens. When revenues become tight for organizations, common industry practice is to prioritize those essential services that may be required by federal or state statute and ensure those services are funded. Nonessential services generally include programs like the arts, recreation and recreational facilities, business support, entertainment venues, and non-response public safety services (e.g., funeral escorts and special event security).

While the City Manager did require departments to produce budget reduction scenarios of 5-10-15% with the FY 2012-13 budget, we did not see any direction to the departments in prioritizing mandatory versus non-mandatory or essential versus nonessential services. In fact, the budget instructions to Departments from January 2012 simply asked Department heads to submit three different percentage reduction proposals based on target allocations. Written guidance or direction via the budget instructions memo was not provided from the Chief Financial Officer on what specific programs or activities should be targeted for reduction.

A&M also did not see where the City performed any zero-based budgeting or critical review of program spending. Departments prepared across the budget reduction options without clear direction on priorities or areas for cost reductions. Given its fiscal uncertainty, the City should have exercised some type of strategic budget review and planning process to determine priorities and calculate what the City could afford.

A. Industry Best Practices in Budgeting and Fiscal Stress Management

A recently published GFOA white-paper entitled “Zero-Based Budgeting Modern Experiences and Current Perspectives”¹⁵ outlines approaches available for governments to develop budgets, especially during times of fiscal distress:

GFOA: Fiscal First Aid - Three Essential Questions of Planning and Budgeting		
	Planning	Budgeting
Prerequisite: What is Affordable?	What are the community's priorities and how can government action add value?	What programs should we fund in order to best achieve priorities?
	How much and what quality of service does the community need from a given program?	What level of service should we fund within a program?
	Is the service provided efficiently?	For a given service level, are the requested inputs reasonable for the output we expect to receive?

Source: GFOA Fiscal First Aid Best Practices

A&M did not see where the City deployed strategic planning or review processes in the development of its most recently adopted budget. The primary measures the City used to balance the FY 2012-13 budget through the Pendency Plan included reducing employee wage benefits and additional pay categories, reducing retiree health care, and eliminating payments on the City’s existing General Fund-supported debt.

There was not a defined process or community-wide plan to critically review services and programs. The City has now indicated, post bankruptcy filing, that it is now considering new measures such as selling surplus property, examining efficiency measures, and reviewing opportunities for increased revenues. However, these measures should have been considered *prior* to the adoption of the Pendency Plan and the bankruptcy filings.

1. Fiscal First Aid ¹⁶Strategies

GFOA has prepared a set of recommended practices for governments dealing with challenging times. In its “Fiscal First Aid Strategy”, it advises local governments that “when afflicted with financial distress, public managers first need to stabilize the ailing government. Fiscal first aid techniques can be used to stop the bleeding and provide

¹⁵GFOA Zero Based Budgeting Modern Experiences and Current Perspectives 2011

¹⁶ GFOA Fiscal First Aid Best Practices



immediate relief. Cases of more severe distress may not be completely resolved by fiscal first aid, but fiscal first aid can provide a short-term respite and time to develop more permanent treatments. In less severe cases of financial distress, fiscal first aid alone may be sufficient.”¹⁷

In reviewing the GFOA First Fiscal Aid Strategy, A&M found many “first line defenses” that Stockton did not consider in the preparation of the FY 12-13 budget presentation, during the AB 506 process, or in the submission of the Pendency Plan. Examples of these “defenses” include:

Revenue Strategies

- ④ Audit revenue sources
- ④ Standardize the billing and collection procedures
- ④ Coordinate collection efforts between agencies, particularly the courts and county agencies
- ④ Outsource revenue collections (parking, taxes, etc.) to a private vendor
- ④ Consolidate collections with a special purpose unit to achieve standardization and consistency
- ④ Implement an amnesty program for past-due fees
- ④ Propose taxes with a strong nexus

Expense Opportunities

- ④ Evaluate overtime use
- ④ Address health care costs and workers' compensation claims patterns
- ④ Review all positions for duplication of duties, accuracy of job descriptions, and compliance with FLSA
- ④ Review the use of consultants, temporary staff, and volunteers to reduce the benefit-burden rates
- ④ Evaluate internal controls including the use of petty cash, approval levels for purchases, and separation of disbursement
- ④ Consolidate departments where it makes sense to reduce overhead
- ④ Evaluate supervisor to front-line employee ratios

¹⁷ Government Finance Officers Association Fiscal First Aid recommended practices

- ④ Investigate risk management (workers' compensation claims patterns)

Other Financial Strategies

- ④ Audit certain recurring expenditures
- ④ Divest loss-generating enterprises
- ④ Seek state, federal, and/or regional assistance
- ④ Identify sources of liquidity
- ④ Make managers manage
- ④ Enhance purchasing practices
- ④ Pursue inter-organizational cooperation or agreements
- ④ Revisit control systems
- ④ Establish a culture of frugality
- ④ Pool department resources
- ④ Sell underutilized assets
- ④ Implement a reduction in force (RIF) for non-public safety employees
- ④ Defer and/or cancel capital projects, maintenance, and/or replacement
- ④ Revisit interfund transfer policies and program subsidies
- ④ Reevaluate managed competition and outsourced program operations
- ④ Refinance debt for lower interest rates or extension of obligations. We did not see any reports or studies where the City Manager presented to City Council or discussed with bondholders alternatives for refinancing the City's existing debt service
- ④ Evaluate financial condition - GFOA best practices promote that cities in distress should evaluate their financial conditions and develop "key indicators of financial condition and benchmarking data like employee's per-capita, overtime spending ratios, benefit costs, claims costs"
- ④ Inventory programs and ascertain its costs - A&M did not find where the City developed a "comprehensive inventory of programs" to identified unproductive or nonessential programs. This is a "crucial pre-requisite" to budgeting by priorities "which is essential to long-term fiscal health and should be a central mid-term goal for any distressed government"

The City's department heads and managers must be held accountable for managing their budgets within expected guidelines. We found several best practices where city department heads who do not stay within budget must present to their City Council a detailed explanation as to why they are not following their budget. In many cases, we found governments who prepare an Action Plan to provide updates until the situation is well under control.

2. Other Program Efficiency Best Practices

A&M examined strategies used by other cities across California and the United States related to successful budget balancing strategies to avoid bankruptcy. Two very unique and successful strategies included those used by the City of San Jose, California and the City of Kalamazoo, Michigan, which were both able to develop an expenditure reduction plan through evaluation of essential and nonessential services in conditions similar to those faced by Stockton.

City of San Jose, California

At the close of FY 2010, the City of San Jose was faced with a budget deficit of nearly \$115 million, largely due to skyrocketing costs of retirement benefits and pension contributions; nearly 50% of the deficit was attributed to such costs. To close that deficit, the City Manager proposed an operating budget for FY 2011 that resulted in cuts to both essential and nonessential services alike, despite outside pressure from community activists and union advocates. In addition, because personnel expenses accounted for nearly 70% of spending in the previous budget cycle, 588 positions were eliminated in order to close the gap. In tandem with these budget-slashing efforts, the City sought a 10% wage decrease across the board for public-sector employees in order to preserve jobs and reduce the proposed cuts in the FY 2011-12 operating budget.

The Budget office likewise called for public service providers to discover new efficiencies in their respective departments and privatized some functions that had previously been reserved for public sector employees. Many of the cuts were identified as being "tough" on residents of the city, but necessary nonetheless. They included rolling "brown-outs" of fire stations, reduction of police manpower, reduction of park hours

and routinized park maintenance schedules, and revocation of funding for services for seniors and at-risk youth. Most poignantly, San Jose, which had massively developed its library system in recent years, limited the number of hours and days those libraries are opened, and created open hour “shifts” throughout the system. Some recently constructed libraries still have yet to open.

One of the greatest lessons to learn from San Jose is the practice the City took with its labor negotiations. The City managed, while under open contracts, for bargaining groups to build consortiums to allow the City to manage benefit structures. This allowed the City to lower its personnel costs through negotiations with its labor groups and stakeholder input. By proactive leadership, the City has entered FY 2012-13 with a \$9 million surplus, and City did not have to enter into the AB 506 process or file bankruptcy.

City of Kalamazoo, Michigan

A recent case of a local government that developed a collaborative and consolidated services plan is the City of Kalamazoo, Michigan.¹⁸ The City worked in partnership with Kalamazoo County and the City of Portage to develop a transparent blueprint to drive financial and operational efficiencies. Like California, the state of Michigan has suffered from economic erosion over the past decade, with the Kalamazoo area experiencing poverty, a high foreclosure rate, and declining revenues. The Kalamazoo had to explore alternative avenues to create efficiencies while continuing to provide quality public services. Major initiatives included:

¹⁸ City of Kalamazoo, Michigan Cooperation, Collaboration and Consolidation of Services Plan

- Public safety collaboration
- Administrative collaboration
- Employee reductions and consolidations
- Use of technology
- Use of new and expanded partnerships
- Physical plan resource consolidations
- Personnel cost control
- New services consolidation

In total, the City of Kalamazoo saved over \$11.5 million by implementing the strategies listed above. A&M did not see where Stockton demonstrated a willingness to engage in any similar measures in their development of the FY 2012-13 Budget and Pendency Plan, prior to its bankruptcy filing.

VII. FINANCIAL BUDGET ALTERNATIVES

In its review of the City's baseline budget model, A&M built its recommendations based on its own internal expertise in city management deficit reduction plans and its peer analysis of cities in similar situations to Stockton. We analyzed the decisions the City could have and should have made before it filed bankruptcy. We also identified the many opportunities that would have allowed and would continue to allow the City to build a sustainable growth model for future years.

Taking a look at the City's revenue enhancement opportunities, the City had failed to propose additional taxes even though it had seen the successes of other cities in California. It failed to identify any additional revenues and cash infusions based on the sale of assets. Looking at the City's expenditures, the City never made the tough decisions to eliminate nonessential services and failed to revise or restructure any of its current contracts in labor friendly agreements that would allow the City to better manage its payments moving forward. The City also did not look at specific opportunities to consolidate, privatize or share services across the City.

The City's repeated lack of action to streamline costs, cut nonessential services, outsource operations, sell or privatize underutilized city assets, and increase revenues worsened a manageable problem. The City left millions of dollars on the table in terms of additional budget efficiencies and revenue enhancements that could be achieved outside of bankruptcy without jeopardizing public safety.

The City presented a budget that maintains flat revenue growth in FY 2012-13 with baseline budget and fiscal stability additions that increase expenditures by \$25.1 million. Furthermore, the City has presented no new revenue increases in FY 2012-13. Our financial budget alternatives identify a number of initiatives that should both increase the revenues and reduce the expenses going forward, enabling a return to financial strength. The series of revenue enhancements that we identify are targeted to increase total revenues by an additional \$9.6 million to \$35.6 million over the next three years.

We are also recommending a series of expense reductions to decrease costs by \$24.4 million in FY 2012-13, bringing them under the projected revenues. The expense reductions fall into five categories including department budget reductions designed to save \$8.9 million in FY 2012-13, restructuring of employee and personnel benefits designed to save \$12.0 million, revised contract payments and loan debt savings of \$0.7 million, and removal of the fiscal stability measures that add back \$2.9 million. The net results of these fiscal improvements increase the current fund balance from \$6.1 million to \$15.1 million by the end of FY 2012-13 with continued improvement in each successive year.

The Alternative Model is based on Stockton's baseline budget and incorporates four adjustments detailed in the September 11, 2012 budget amendment. The amendments included a \$162,000 increase in general expenses, a \$300,000 reduction in the library and recreational subsidies, a \$150,000 reduction in other program support, and a \$533,000 increase in property tax revenues.

TABLE 1. SUMMARY OF REVISED BASELINE BUDGET ALTERNATIVE MODEL

Summary of Alternative Model Baseline Budget			
	FY 2012-2013	FY 2013-2014	FY 2014-2015
City's FY 2012-2013 Proposed Baseline Budget			
Baseline Revenues	\$ 155,448,405	\$ 154,842,002	\$ 156,405,796
Baseline Expenditures & Fiscal Stability Adds	180,535,693	191,590,548	202,751,176
City's Projected Ending Fund Balance	\$ (25,087,289)	\$ (36,748,546)	\$ (46,345,380)
New Revenue Opportunities			
Recurring New Revenue Opportunities	\$ 9,565,829	\$ 34,938,317	\$ 35,625,701
Total New Revenue Opportunities	\$ 9,565,829	\$ 34,938,317	\$ 35,625,701
Spending Reduction Alternatives			
Department Budget Reductions	\$ (8,850,300)	\$ (11,224,076)	\$ (11,878,365)
Restructuring of Employee Personnel & Benefits	(11,978,737)	(10,853,911)	(10,879,019)
Revised Contract Payments & Loan Debt	(732,000)	(784,701)	(784,701)
Reduce Reinstated Fiscal Stability Measures	(2,879,016)	(2,345,371)	(12,138,325)
Consolidation or Privatization of Services	-	(494,976)	(494,976)
Total Spending Reduction Alternatives	\$ (24,440,053)	\$ (25,703,035)	\$ (36,175,386)
Projected Beginning Fund Balance *	\$ 6,158,291	\$ 15,076,884	\$ 38,969,691
Projected Ending Fund Balance	\$ 15,076,884	\$ 38,969,691	\$ 64,425,397

* Projected Beginning Fund Balance as of July 1, 2012 (FY 2011-2012 Unaudited Actual Report)

The above amount is inclusive of the additional \$566,000 the City targeted for Chapter 9 expenses.

A. Opportunities to Increase Stockton's General Fund Revenues

In reviewing Stockton's baseline FY 2012-13 budget, A&M did not find any discussion, proposal, or analysis of proposed revenue increases to the General Fund for FY 2012-13 and future year budgets. Potential opportunities to increase General Fund revenues include:

1. Local Retail Sales Tax
2. Utility User Tax
3. Transient Occupancy Tax Increase
4. Parcel Tax
5. Various Emergency Service Recovery Fees
6. Other opportunities (not included in model)
 - a. 911 Fees
 - b. Unrealized State Grant Opportunities
 - c. Privatization and/or Sale of under-utilized assets and property
 - d. Countywide sales tax for Library Services

By California statute (Proposition 218), cities such as Stockton must obtain voter approval for any tax increase. A&M's research findings indicate that many cities across California have increased General Fund revenues over the past several years through tax-approval measures with overwhelming public support.

Table 10 shows information reviewed from the California Local Government Finance Almanac¹⁹ on November 6, 2012. Unaudited election returns indicated that 171 of the 240 tax measures passed.

TABLE 10. CALIFORNIA REFERENDUM RESULTS – NOVEMBER 2012

State of California Local Voter Referendum Results (Preliminary)			
Local Revenue Measures - November 2012			
	Total	Pass	Passing
City General Tax (Majority Vote)	60	48	80%
County General Tax (Majority Vote)	6	4	67%
City Special Tax on G.O. Bond (2/3 Vote)	15	5	33%
County (Special Tax) 2/3 Vote	12	7	58%
Special District (2/3)	16	7	44%
School Parcel Tax (2/3)	25	15	60%
School Board (2/3 or 55%)	106	85	80%
Total	240	171	71%

Source: California Local Government Finance Almanac

1. Local Retail Sales Tax

To increase revenues, cities have the opportunity to establish a sales tax in addition to the state sales tax. Currently in California, the basic statewide sales and use tax rate is 7.25% and is divided as follows:

- 6.25% for State
- 0.75% for Local Jurisdiction (County or City)
- 0.25% for Local Transportation Fund²⁰

¹⁹ California Local Government Finance Almanac

²⁰ California Board of Equalization detailed description of the Sales & Use Tax Rate

Stockton’s current sales tax is 8.0%, (0.75% above the basic statewide rate). Additional proceeds from that increased rate go to fund various City programs and the General Fund.

If the City of Stockton were to raise its sales tax 0.5%, the City Manager has noted that the increase could yield \$4.5 million in increased revenues in FY 2012-13, and approximately \$18 million each year after. In 2010, a Stockton open survey reported that the majority of voters would approve a 0.25% increase in sales tax.²¹ Most recently, the City issued a survey on September 16-18, 2012 and 64% of the voters agreed that they would vote in favor of a half-cent sales tax measure.²²

2. Utility User Tax

Utility User Taxes (“UUTs”) in California are taxes that cities impose on the consumption of certain utility services. About 146 California cities and four counties have a UUT.²³ Recent UUT ballot measures in Table 11, which passed and generated more revenue for the localities under Proposition 218 are listed below:

TABLE 11. RECENT UTILITY USER TAX BALLOT MEASURES

Recent UUT Ballot Measures			
Measure	County	Outcome	Description
Arcata (City of), Measure I	Humboldt	Approved	Addition of Electric
Bellflower (City of), Measure P	Los Angeles	Approved	2% Increase of tax
Berkeley (City of), Measure Q	Alameda	Approved	Extension of current rate
Downey (City of), Measure D	Los Angeles	Approved	Rate decrease from 5% to 4.8%, addition of more Utilities
Los Alamitos (City of), Measure DD	Orange	Approved	Rate decrease from 5% to 4.8%, addition of more Utilities
Needles (City of), Measure T	San Bernardino	Approved	Tax of up to 2.5%
Pinole (City of), Measure M	Contra Costa	Approved	Extended 8% for additional 8 years
San Luis Obispo (City of), Measure D	San Luis Obispo	Approved	Rate decrease from 5% to 4.8%, addition of more Utilities
Modesto, Measure N	Stanislaus	Approved	Rate decrease from 6% to 5.8% addition of more Utilities

Source: California Local Government Finance Almanac

²¹ Stockton 2010 Open Survey

²² Question 7 – Fairbank, Maslin, Maullin, Metz, & Associates

²³ California Local Government Finance Almanac

Since 1969, the City of Stockton has imposed a Utilities User Tax on its utilities customers. In 2008, the percentage tax was reduced from 8% to 6%.²⁴ During the same year, Stockton voters also approved Measure U, which extended the UUT rate of 6% for future years and covered additional telecommunications charges such as text-messaging and paging.²⁵

If Stockton were to return to its rate of 8%, it would yield approximately \$10 million in additional revenues.

3. Transient Occupancy Tax

Many cities across California have established a Transient Occupancy Tax (“TOT”), or a “Hotel Tax”, to capture revenues from the tourism, travel, hospitality, and business industries. Stockton uses 100% of its TOT for the General Fund. As shown in Table 12, Stockton’s current TOT rate is only 8.0% compared to an average of 10.1% for seven peer cities. An increase to the current rate would require a public referendum by the citizens of Stockton.

TABLE 12. TRANSIENT OCCUPANCY TAX REVENUES – COMPARABLE CITIES

Transient Occupancy Tax Revenues - Comparable Cities								
<i>FY 2011</i>	City							
	Stockton	Bakersfield	Fresno	Modesto	Fairfield	Visalia	Tracy	Average
<i>Rate's (FY2011)</i>	8%	12%	12%	9%	10%	10%	10%	10.1%
<i>Source - Michael Coleman - http://www.californiacityfinance.com/index.php#TOT</i>								

The current rate of 8.0% generates approximately \$1.8 million annually in General Fund revenues. A 2.0% increase (based on voter approval) would generate an additional \$452,000 based annually on eligible taxable hotel guest receipts of \$22.6 million.

²⁴ Smarter Voter. Measure U: Modernization of Communications User Tax City of Stockton

²⁵ Recordnet.com, “Measure U Proponents scrambling to protect revenue”



4. Parcel Tax

After Proposition 13 passed in 1978, some local governments began imposing a new type of property tax not tied to the assessed value of a parcel. As shown in Table 13, Stockton currently does not levy a Parcel Tax; however, some peer cities currently have a Parcel Tax in place:

TABLE 13. PEER PARCEL TAXES

The San Joaquin County Mapping Department has identified 83,256 parcels in Stockton. If Stockton were to establish a parcel tax implemented at the same rate as

Peer Parcel Taxes		
<u>Vallejo</u> Measure K \$48	<u>Oakland</u> Measure BB \$80	<u>Davis</u> Measure D \$49

Vallejo (\$48), the City could increase revenues by as much as \$3.9 million. Such a tax should be dedicated for specific program purposes, such police or fire services or community support programs such as library services.

5. Emergency Service Cost Recovery Fees

Cities and fire departments continue to seek ways to avoid increasing taxes and/or decreasing levels of service.²⁶ One such measure being adopted to defray emergency response costs is filing insurance claims against the at-fault driver in motor vehicle incidents. Stockton Government Code 3.48.020 established an emergency response cost recovery program, which allows for the collection of emergency response costs from at-fault drivers. The City is currently recovering emergency costs; however, it can increase revenues by adding more cost recovery programs.

Stockton has the ability to “recover” additional costs for emergency services through programs that companies like Fire Recovery USA have established, such as:

- 🔍 Structure Fires
- 🔍 Fire Investigation
- 🔍 Special Rescues
- 🔍 Water Incidents
- 🔍 Fire Prevention Inspections and Permit Billing

²⁶ Fire Recovery USA. About Our Service



There are more than 50 other Cities such as Pinole, Upland, Sacramento and Oakland that have implemented many cost recovery programs Fire Recovery USA offers.²⁷ If Stockton were to begin all of these programs listed above they could generate approximately \$1.6 million in cost savings.²⁸ Stockton has the ability to establish many of these programs through City Council actions that would enable it to begin generating additional revenue shortly thereafter.

6. Other Revenue Opportunities

A&M also identified several revenue opportunities for the City's General Fund including reinstating the 911 Fees, seeking other State and Federal Grants, one-time revenue from the sale or privatization of underutilized assets, and a countywide sales tax for Library Services.

a. 911 Fees

California law obligates cities to maintain a 911 system; however, this program is largely unfunded and costly to California cities. Many cities across California have turned to an emergency communication system response access fee, known as a 911 Fee, to fund their respective systems.

In 2004, Stockton established section VII of chapter 8 of the Stockton Municipal Code, which created the Emergency Communication System Access Fee. The purpose was to maintain and improve the 911 communication system. Enforcement of fee collection was to be administered by the telephone companies, resulting in lawsuits from AT&T and Verizon against the City. Stockton removed its 911 Fee after the presiding court ruled that the fee was in fact a tax and required voter approval. Stockton could recover many of its 911 system costs by putting the 911 Fee to a vote in a General Election or Special Election. Stockton's previous fee was \$1.50. In its most recent election, San Francisco Measure O passed with voter approval to establish a \$2.75 fee.

²⁷ Troy Walsh (Chief Executive Officer) – Fire Recovery USA

²⁸ Ibid.

b. Available Direct State & Federal Grants

Over the past three years, the City has not taken advantage of many grant opportunities that are available to it, despite publicly acknowledging the importance of relying on grants for funding several of its programs, particularly with regard to street and highway upgrades and maintenance and the compensation of its police force. Although it is true that Stockton receives a certain portion of federal formula grants each year, Stockton has greatly underperformed in identifying and pursuing a multitude discretionary grant programs that would have otherwise provided revenues to the City's flagging service programs.

For example, to date in calendar year 2012, 25 comparable cities in California have applied for and received either Assistance to Firefighters or a Staffing for Adequate Fire & Emergency Response (SAFER) grant, both of which are administered directly by FEMA. Despite experiencing similar staffing crunches and budget shortfalls as those successful applicants and facing a challenge in providing adequate fire prevention and safety services, Stockton failed to seek out and to apply proactively for this grant opportunity. Several similar grants are available upon direct application to the administering federal agency in many other critical city-function areas, such as law enforcement, shelter and temporary housing programs, education, and health care.

Likewise, Stockton has not fully pursued discretionary grant programs that are administered by the state of California. In surveying 2012 announced awards, A&M was only able to find two state-funded awards made to Stockton: (1) a State Charter School Facilities Incentive Grants Program for the Aspire Rosa Parks Academy and (2) a City/County Payment Program Grant from CalRecycle to promote beverage recycling. The state, however, offers grants for almost all vital city service activities, such as local transportation planning, enhancing law enforcement scope, improving special education capabilities, providing environmental preservation services, and development of the workforce and specially trained professionals.

c. Privatization or Sale of City Assets and Abandoned Property

A&M did not see in the AB 506 Ask where the City reviewed its current inventory of City properties to determine the highest and best use or potential monetization of underutilized assets and property. Most recently and after the June 28th bankruptcy filing, it is our understanding that the City has now engaged a professional real estate consulting firm to assist in the potential sale of its real estate holdings. This initiative should have been done prior to the AB 506 process and formal bankruptcy filing. The City did not fully examine all of its financial alternatives prior to its Chapter 9 filing and claim of insolvency.

The City should examine its underutilized assets and the costs of privatizing certain programs/services. Selling facilities or land could generate new property tax revenues and selling assets could also raise short cash liquidity. In our document review, we did not find that the City examined privatization efforts in its Financial Sustainability Plan.

Large facility and building assets the City should consider for potential sale or monetization or privatization should include:

- | | |
|---|---|
| • 400 East Main Street
Office Building | • Civic Auditorium |
| • Closure and/or Sell
Existing City Hall | • Community Centers |
| • Stockton Events Center | • Print-Shop operation |
| • Marina and Boating
Facilities | • Water, Wastewater and
Storm Water Utility
Systems |
| • Recreational Facilities | • Weber Point Events Center |
| • Bob Hope Theatre | • Public Libraries |
| • Oak Park Ice Arena | • Vacant city properties and
abandoned rights of ways |

Any sale of assets will produce one-time cash funds to City. Prior to the use of such funds to support one-time spending needs of the City, outstanding debt obligations

must be liquidated from the sale proceeds. By removing underutilized assets or properties that require General Fund subsidy to support operations and capital improvements, the sale will provide financial relief to the General Fund and debt obligations will be satisfied.

d. Countywide Sales Tax for Library Services

Since the authorization of the Transactions and Use Tax Law in 1969, many local add-ons are combined with the state and local sales tax rates. In many counties, there is now an add-on for public library services. Table 14 shows counties that currently have sales and use tax add-ons for public library services. San Joaquin County has not established a dedicated tax for library services but could do so with voter approval to dedicate revenues to support its public library services.

TABLE 14. PEER SALES TAXES FOR LIBRARY SERVICES

Peer Sales Taxes for Library Services		
Tax	Rate	Year Est/Extended
Fresno County Public Library	0.125%	04/01/1999
Nevada County Public Library	0.125%	10/01/1998
Santa Cruz County Public Library	0.250%	04/01/1997
Solano County Public Library	0.125%	6/5/2012
Mendocino County Public Library	0.125%	10/8/2011
Source: California Board of Equalization		

The City has not maximized its ability to reduce spend nor has it fully realized its revenue-generation potential with opportunities for the potential sale, lease or privatization of city buildings, services and assets to reduce direct or indirect costs to the General Fund.

As shown in Table 15, if Stockton had considered and obtained voter approval in some instances, it could have generated an additional \$9.6 million in FY 2012-13 and \$35.6 in FY 2013-14 when the revenues are annualized. The City failed to present these options to the City Council as part of the FY 2012-13 budget process or Pendency Plan.



This amount does not include any new revenues from unrealized grant opportunities or net proceeds from the sale or privatization of City assets.

TABLE 15. REVISED BASELINE BUDGET STRATEGIES –REVENUE OPPORTUNITIES

REVISED BASELINE BUDGET ALTERNATIVE MODEL		FY 2013 Impact	FY 2014 Impact	FY 2015 Impact
RECURRING REVENUE OPPORTUNITIES				
0.50% Sales Tax Increase	Initiate a voter approved 0.50% sales tax increase	\$ 4,686,257	\$ 18,745,029	\$ 19,340,413
2.00% Increase in User Utility Tax	Increase User Utility Tax from 6.00% to 8.00%	\$ 2,500,000	\$ 10,000,000	\$ 10,092,000
Cost Recovery Fee for various Emergency Service Fees	Implement various Emergency Service Recovery Fees	\$ 800,000	\$ 1,600,000	\$ 1,600,000
Transient Occupancy Tax	Increase Transient Occupancy Tax by 2%	\$ 113,000	\$ 452,000	\$ 452,000
Parcel Tax	New \$4.00 per month Dedicated General Fund Program for Library Support and/or Public Safety Needs	\$ 991,572	\$ 3,966,288	\$ 3,966,288
Police Parking Fines	Increase in police parking citations from a State surcharge on parking citations	\$ 25,000	\$ 25,000	\$ 25,000
Code Enforcement Revenues	Increase in code enforcement revenues from original budget projections	\$ 150,000	\$ 150,000	\$ 150,000
One Time Transfers	Storm water Enterprise Fund - Continue Loan Repayment for an additional year	\$ 300,000	\$ -	\$ -
9-1-1 Fee	Reinstate \$1.50 per month fee (\$4,588,235 annually)	TBD	TBD	TBD
Grant Opportunities	New State & Federal Grants (Monies would actually be reflected as a Special Revenue Fund with costs being shifted as well)	TBD	TBD	TBD
Sale of Assets	One time revenues from Sale or Monetization of Assets	TBD	TBD	TBD
TOTAL RECURRING NEW REVENUE OPPORTUNITIES		\$ 9,565,829	\$ 34,938,317	\$ 35,625,701

The above table identifies specific recurring revenue opportunities and their effects over three fiscal years. California voters are increasingly likely to pass measures intended to support the local economy and provide essential city services. If these measures had been placed on the November ballot, the City could have received a necessary influx of monies into the General Fund through tax measures supported by residents of the City.

We did not see where the City discussed these initiatives or other revenue enhancements over the past two years since the first Emergency Order.

B. Opportunities to Reduce Stockton's General Fund Expenditures

Table 16 provides a summary of the expense alternative options over the next three years. For FY 2012-13, the City failed to identify \$24.4 million of spending reductions that could have been made without materially impacting necessary services.

TABLE 16. SPENDING REDUCTION ALTERNATIVES

	FY 2012-2013	FY 2013-2014	FY 2014-2015
Spending Reduction Alternatives			
Department Budget Reductions	\$ (8,850,300)	\$ (11,224,076)	\$ (11,878,365)
Restructuring of Employee Personnel & Benefits	(11,978,737)	(10,853,911)	(10,879,019)
Revised Contract Payments & Loan Debt	(732,000)	(784,701)	(784,701)
Reduce Reinstated Fiscal Stability Measures	(2,879,016)	(2,345,371)	(12,138,325)
Consolidation or Privatization of Services	-	(494,976)	(494,976)
Total Spending Reduction Alternatives	\$ (24,440,053)	\$ (25,703,035)	\$ (36,175,386)

1. Department Budget Reductions

As the City did not complete a bottoms-up or zero-based budgeting review in the development of the FY 2012-2013 budget, A&M believes that further reductions could have been made in non-public safety departments. Departments did submit budget reduction scenarios in both the FY 2011-2012 (Plan B) and the FY 2012-2013 (5-10-15% reduction scenarios) that were not implemented. The Alternative Model being presented calls for the Public Works, Economic Development, Charter Officers, Administrative Services, and Development services departments to reduce their General Fund budgets by 15%. The reduction strategies should be targeted through review of essential and nonessential services, shared service, consolidation, managed competition or other cost cutting initiatives.

Secondly, we noted that as of April 2012, non-public safety departments had 34 vacant positions. The 15% reduction option as proposed in the Department Reduction Alternative Model should take into consideration the potential \$3.9 million savings from not filling these positions.

A&M notes that total (all departments) salaries and wages (including salaries, workers compensation, overtime, compensated absences, and other pay and benefits) represent the largest component of the General Fund budget at \$83.2 million in the FY 2012-13

Baseline Budget and are a driver for other labor-related city costs, such as health care and pensions. The FY 2012-13 budget for salary and wages reflects an 9.6% increase over the FY 2011-12 budget of \$76.0 million. The growth can be attributed to base salary growth of 4.4% for safety, non-safety, and part-time/temporary personnel, a 13.0% growth in workers compensation, a 7.0% growth in overtime, a 3.0% growth in compensated absences, and a 7.0% reduction in other pay and benefits.

In addition to these items, the budget includes new costs for \$2.4 million in spend to replace the absence of grant funding received from the U.S. Department of Justice for the Community Oriented Policing Services (“COPS”) grant that was awarded in FY 2011-12 and expires in FY 2012-13. The COPS grant program is a program that has been awarding grants annually since 1995. In 2012, the COPS Hiring Program made “available \$111 million directly to law enforcement agencies to hire and/or rehire career law enforcement officers for the advancement of public safety through an increase in their community policing capacity and crime prevention efforts.”²⁹ Stockton did not backfill the 2011 award with a 2012 grant.

We did not see where the City made an appeal to the U.S. Department of Justice or the Congressional delegation for special assistances to potentially continue to fund these positions with Federal Grant Funds.

Overtime spending is another growing cost for the City. We question whether the City did a detailed review and analysis to determine:

- If overtime could be reduced by using different patterns for scheduling or expanded use of part-time personnel
- If particular employees consistently work excessive amounts of overtime
- If special projects that consistently create need for overtime and, if so, if the project could be approached in a different way
- If nonessential or “nice-to-have” services are provided at a “premium” level that could be cut back in order to reduce overtime³⁰

²⁹ Community Oriented Policing Services, “Vets to Cops”

³⁰ GFOA Fiscal First Aid Best Practices

Table 17 shows the annual funding subsidies for various Community Services as presented in the City's budget and planning models. Even though the City has supposedly studied "drastic" across-the-board cuts, each of these services was not only deemed "essential" as a matter of policy, but so crucial that they require over \$6.5 million worth of General Fund support. Funding for nonessential programs such as the Arts Commission, Library Services, and the City's recreational facilities should be paid from either user fees or private donations.

TABLE 17. SUMMARY OF GENERAL FUND SUPPORT FOR OTHER PROGRAMS

Summary of General Fund Support for Other Program Support Annual Funding Subsidies					
	FY 2011 Projection	FY 2012 Revised Budget	FY 2013 Projection	FY 2014 Projection	FY 2015 Projection
Library & Recreation Funds					
Library Services Fund	\$ 4,111,205	\$ 3,977,759	\$ 4,154,361	\$ 4,362,079	\$ 4,463,230
Recreation Services Fund	2,921,711	2,757,263	2,895,502	3,040,277	3,110,777
Golf Fund	-	-	350,000	350,000	350,000
Total Library & Recreation Funds	\$ 7,032,916	\$ 6,735,022	\$ 7,399,862	\$ 7,752,356	\$ 7,924,008
Entertainment Venues Fund					
SMG Business Plan Subsidy		\$ 2,311,299	\$ 2,100,000	\$ 1,900,000	\$ 1,944,059
City Staff and Overhead		130,000	135,235	140,938	140,938
Total Entertainment Venues Funds	\$ 2,191,299	\$ 2,441,299	\$ 2,235,235	\$ 2,040,938	\$ 2,084,997
Other Program Support					
Grant Fund - Local match	\$ 72,687	\$ 300,000	\$ 50,000	\$ 50,000	\$ 50,000
Capital Grant Fund - 304	694,355	-	-	-	-
Capital Improvement Fund	-	500,000	575,000	575,000	575,000
Public Facilities Fee Admin.	480,000	-	-	-	-
Development Services Fund	526,069	150,000	1,000,000	1,000,000	1,000,000
Compensated Absences Fund	3,697,917	-	-	-	-
Total Other Program Support	\$ 5,471,028	\$ 950,000	\$ 1,625,000	\$ 1,625,000	\$ 1,625,000
Total General Fund Program Support (Subsidies)	\$ 14,695,243	\$ 10,126,321	\$ 11,260,098	\$ 11,418,294	\$ 11,634,005

In the FY 2012-13 First Quarter Update, the City includes projections for FY 2012-13. Included in those projections are additional subsidies for certain recreational facilities and Entertainment Venues. These additional subsidies are projected due to lower than expected revenues. The example above shows that Stockton is continuing to fund services that are nonessential.

Included under Department Budget Reductions is a reduction of \$2.9 million in various non-departmental costs. Major cost reductions include reducing the current budget

contingency by \$500,000 and the elimination of the program subsidies for the General Fund supported entertainment venues by \$2.3 million. The entertainment venues should be funded solely by the funds generated by the events or by the third party providers. These contracts could have been renegotiated prior to the adoption of the FY 2012-13 Budget.

Table 18 details the recurring spending reduction alternatives by department that the City did not make when analyzing its essential services. In the Alternative Model, there is an additional \$8.9 million in savings that the City did not implement in its departments. These reduction alternatives only identify opportunities in administrative and nonessential city services as there are no direct cuts related to public safety or legal obligations.

TABLE 18. RECURRING SPENDING REDUCTION ALTERNATIVES

RECURRING SPENDING REDUCTION ALTERNATIVES				
Department Budget Reductions	Implement various across the board and spending program reductions. This plan requires each department to develop realistic spending or program reduction plans based on essential versus non-essential services	FY 2013 Impact	FY 2014 Impact	FY 2015 Impact
A. 15% reduction from FY 2013 Baseline Budget (Non-Public Safety)				
Public Works Department - \$7,369,140				
15% reduction from FY 2013 Baseline Budget		\$ (1,105,371)	\$ (1,105,371)	\$ (1,105,371)
Economic Development - \$725,760				
15% reduction from FY 2013 Baseline Budget		\$ (108,864)	\$ (72,570)	\$ (72,570)
Charter Offices - \$3,884,970				
City Council - 15% reduction from FY 2013 Baseline Budget		(63,372)	(63,372)	(63,372)
City Managers Office - 15% reduction from FY 2013 Baseline Budget		(81,527)	(163,055)	(163,055)
City Attorney's Office - 15% reduction from FY 2013 Baseline Budget		(150,653)	(150,653)	(150,653)
City Clerk's Office - 15% reduction from FY 2013 Baseline Budget		(118,368)	(118,368)	(118,368)
City Auditor - 15% reduction from FY 2013 Baseline Budget		(76,324)	(76,324)	(76,324)
Administrative Services - \$3,822,076				
15% reduction from FY 2013 Baseline Budget		\$ (573,311)	\$ (1,146,623)	\$ (1,146,623)
Human Resources - \$2,185,971				
15% reduction from FY 2013 Baseline Budget		\$ (327,896)	\$ (327,896)	\$ (327,896)
B. Police Department - \$93,023,477				
Shifting in Funding to Measure W (Sales Tax Fund)		\$ (300,000)	\$ (300,000)	\$ (300,000)
C. Fire Department - \$40,529,586				
No Further Service Delivery Reductions		\$ -	\$ -	\$ -
D. Community Services - \$7,264,687				
Arts Commission - Eliminate 100% of General Fund support		(37,687)	(37,687)	(37,687)
Reduce 25-50% of General Fund Subsidy for the Library Services Fund - \$4,125,000 - \$4,381,699		(1,031,250)	(2,141,456)	(2,190,850)
Eliminate 100% of General Fund Subsidy for the Recreation Services Subsidy - \$2,800,000 - \$2,974,244		(2,800,000)	(2,907,188)	(2,974,244)
Eliminate 100% General Fund Subsidy for the Golf Course - \$350,000		(350,000)	(350,000)	(350,000)
E. Non-Departmental Programs:				
Contingency - Reduce incremental increase for \$2.0 million contingency to \$1.5 million		\$ (500,000)	\$ (500,000)	\$ (500,000)
Program Support for Other Funds:		\$ (1,225,677)	\$ (1,763,516)	\$ (2,301,354)
Reduce General Fund subsidy by 50 to 100%				
<i>Entertainment Venues - \$2,152,000</i>				
Stockton Arena		(513,614)	(770,421)	(1,027,228)
Bob Hope Theatre		(198,371)	(297,556)	(396,741)
Oak Park Ice Arena		(58,173)	(87,259)	(116,345)
Ball Park		(200,011)	(300,017)	(400,022)
Administration		(105,509)	(158,264)	(211,018)
Development Services - \$1,000,000 (15% Reduction)		(150,000)	(150,000)	(150,000)
TOTAL RECURRING SPENDING REDUCTION ALTERNATIVES		\$ (8,850,300)	\$ (11,224,076)	\$ (11,878,365)

We note that the Pendency Plan did appropriate \$3.5 million for Chapter 9 restructuring costs and additional \$566,000 in carryover from FY 2011-12 as discussed in the December 11, 2012 Report on FY 2011-12 Unaudited General Fund Results. The Alternative Model does not recognize these budget items because the City's bankruptcy filing could have been avoided had the City realized various identified revenue enhancements and expenditure reductions.

2. Restructuring of Employee Personnel Wage & Benefits

Table 19 below details the spending reduction alternatives identified by restructuring employee personnel wages and benefits for three years. The plan includes scaling back highly subsidized employee and retiree health care plans and eliminating vacant positions. As the City is in a difficult position financially, the restructuring of a generous benefit structure would have freed up essential monies for the City. Each of these reduction alternatives is discussed below.

TABLE 19. RESTRUCTURING OF EMPLOYEE PERSONNEL WAGE & BENEFITS

Restructuring of Employee Personnel Wage & Benefits		FY 2013 Impact	FY 2014 Impact	FY 2015 Impact
Employee Healthcare Benefits	Require employees to pay 25% of Healthcare costs for employee only and 30% of health care costs for dependent care plans.	\$ (777,410)	\$ (777,410)	\$ (777,410)
Retiree Healthcare Benefits	Require Retirees to pay 25% of healthcare costs	\$ (2,295,159)	\$ (2,389,140)	\$ (2,593,617)
Vacancy Savings	Consider more realistic calculations for vacancy savings associated with the existing safety related vacant positions and expected staff turnover resulting from retirement, terminations, and voluntary turnover	\$ (3,543,345)	\$ (2,824,978)	\$ (2,390,775)
Pension Hardship	CalPERS for a hardship extension	\$ (1,247,823)	\$ (1,502,383)	\$ (1,757,217)
Pendency Plan Labor Agreement Changes	Implement Added Labor Cost Reductions (Recommended by City in Ask and Pendency Plan).	\$ (4,115,000)	\$ (3,360,000)	\$ (3,360,000)
	<i>Eliminate Vacation Sell-back Program for Police</i>	<i>(569,000)</i>	<i>(569,000)</i>	<i>(569,000)</i>
	<i>Eliminate Industrial Disability Payments of Non-Safety Employees</i>	<i>(150,000)</i>	<i>(150,000)</i>	<i>(150,000)</i>
	<i>Reduce Other Pay & Benefits identified in the Pendency Plan (Pendency Plan Attachment B)</i>	<i>(1,208,000)</i>	<i>(1,208,000)</i>	<i>(1,208,000)</i>
	<i>Reduce Overtime, Standby & Call Back</i>	<i>(595,000)</i>	<i>(595,000)</i>	<i>(595,000)</i>
	<i>Reduce Compensated Absences</i>	<i>(1,593,000)</i>	<i>(1,593,000)</i>	<i>(1,593,000)</i>
	<i>Savings Adjustments from SPOA Agreement December 11 MOU</i>	<i>-</i>	<i>755,000</i>	<i>755,000</i>
Total Restructuring of Employee Personnel Wage & Benefits		\$ (11,978,737)	\$ (10,853,911)	\$ (10,879,019)

a. Health Care

Employee related health care costs were projected to decline by 7% from \$9.5 million to \$8.8 million in FY 2012-13. These costs assume a continuation of the existing trends per the Segal projection and the maintenance of current employee terms. A comparison of Stockton's costs to other California cities revealed that cost of health care premiums and employee contributions is below its peer average. However, recent contribution limits have been established that will likely shift responsibility for additional cost to employees, thereby pushing Stockton above its peer group.

Aon Hewitt performed a 2012 Health Care Study to provide benchmarks on practices in health care and health care coverage by employers in the face of ever increasing health care costs. The results of the study include benchmarks for cost sharing between employee and dependent health care coverage. The results show that employee-only coverage of costs averages 23% in 2012, and is expected to increase to 25% over the next three to five years, while 29% of dependent coverage is by the employee and is expected to increase to 31% over the next three to five years.

Over 90% of Stockton's health care costs are for plans that include dependents. By increasing employee costs for all plans on average to 25% in 2012-2013, the City could have saved \$258,104. By increasing the cost of the employee only plans to 25% and the dependent care plans to 30%, the City would have saved \$777,410.

Additional reductions could be achieved through combination of initiatives including: (a) rebidding of existing contracts with new provider; (b) increases in employee out-of-pocket expenses, and (c) reduction of current cap of employer premium share.

b. Retiree Health Care

Retiree-related health care costs were projected to increase 15% from \$8.0 million to \$9.2 million. These costs assume a continuation of the existing trends per the Segal projection and the maintenance of current retiree terms.

Cobalt Community Research Health and OPEB Funding Strategies produced a study of local governments and special districts that tracks budget and staffing expectations and strategies to address employee and retiree health costs. This report showed that “the number of local governments who do not provide health care to retirees increased from 46% to 59%” between 2011 and 2012. Therefore, we strongly recommend that retirees be required to pay a larger portion of the overall cost of health care.

Our recommendation is to require retirees to pay 25% of the health care costs. This will reduce the City contribution towards the cost of retiree medical benefits for current and future retirees, and the General Fund savings will be \$2.3 million for FY 2012-13.

c. Vacancy Savings

The City’s budget included budgeted vacancy savings of 0.8% or \$975,618 in FY 2012-13. The City also provided a vacancy report as of May 2, 2012 that reflected that 88 of the 853 total positions, or 10.3% of the total positions, were vacant. The Alternative Budget Model increases the vacancy savings for safety personnel to 9.0% generating an additional \$3.5 million in savings in FY 2012-13, \$2.8 million in FY 2013-14; and \$2.4 million in FY 2014-15. The slight reduction in annualized savings in the future years is due to the increase in vacancy saving that has been budgeted by the City.

d. Labor Agreement Changes

The Pendency Plan takes many measures to reduce personnel costs by restructuring wage and employee and retiree benefits agreements. The City enacts changes that

restructure employee and retiree health care, eliminating benefits for some retirees and decreasing its share of current employee health care spend.

Pension agreements are also re-structured as new tiers are created for new employees and unfunded liabilities are decreased. COLAs and deferred raises that are guaranteed for some employees are eliminated and excessive vacation and sick day benefits are taken away under the plan.

The City's final approved budget also made other changes to add pays, overtime, holidays, and other employer paid benefits.

Our Alternative Model does take into consideration the salary adjustments to the Pendency Plan Labor Adjustment related to the Stockton Police Officers Association, as approved by City Council on December 11, 2012.

e. CalPERS Hardship Extension

Our understanding is that CalPERS' hardship provisions permit an employer to amortize its unfunded liability over a thirty year period rather than a shorter period which ordinary CalPERS actuarial practices may have produced. By letter dated December 4, 2012, the City finally made a request to CalPERS for a hardship extension. If a hardship extension is first granted for FY 2012-13, the savings would be approximately \$1.25 million in FY 2012-13, increasing to \$1.5 million in FY 2013-14 and \$1.75 million in FY 2014-15. The total three year hardship savings for the period FY 2012-2013 through FY 2014-15 would be approximately \$4.5 million.³¹

3. Other General Fund Spending Reductions

Table 20 below details the revised contract payments, reduction of fiscal stability measures, and opportunities for consolidation within Police and Fire. In the A&M Alternative Model, the City could cut the Marina debt payment as it is not legally obligated to make the payment as the citizens and City Council did not vote on its approval.

³¹ Appendix B



The City's FY 2012-13 budget also added various fiscal stability measures which the City cannot fund with its current revenues and spending plan. The reduction of fiscal stability measures could reduce nonessential expenses, and the City's consolidation or privatization of police and fire dispatch could make a cumbersome process more efficient and cost-effective for future years. These two opportunities could have recognized an immediate savings of \$3.6 million for the City. Each of these reduction alternatives is discussed below.

TABLE 20. REVISED CONTRACT PAYMENTS / LOAN DEBT

REVISED CONTRACT PAYMENTS / LOAN DEBT			
Revised Contract Payments, Settlements & Debt	FY 2013 Impact	FY 2014 Impact	FY 2015 Impact
City Debt Service Payments			
<i>DSW-Debt - Marina - \$ 732,000</i>	<i>(732,000)</i>	<i>(784,701)</i>	<i>(784,701)</i>
TOTAL CHANGES TO CONTRACT PAYMENTS / LOAN DEBT	\$ (732,000)	\$ (784,701)	\$ (784,701)
REDUCE REINSTATED OF FISCAL STABILITY MEASURES			
Workers Compensation			
Eliminate added one-time funding for Workers Compensation Fund	\$ (750,000)	\$ -	\$ -
Fund Deferred Maintenance			
Ongoing Excess of Current 100% to 50%	\$ (1,000,000)	\$ (500,000)	\$ (500,000)
Increased ISF Contributions			
Computer/Technology	\$ -	\$ (250,000)	\$ (250,000)
Rebuild Internal Service Reserves = 100% to 50%	\$ (750,000)	\$ (375,000)	\$ (375,000)
Employee Cost Increases			
End Work Schedule Modification	\$ (1,129,016)	\$ (1,220,371)	\$ (2,485,818)
Increased Services			\$ (8,527,507)
TOTAL FISCAL STABILIZATION MEASURES	\$ (2,879,016)	\$ (2,345,371)	\$ (12,138,325)
OPPORUNTIES FOR CONSOLIDATION OR PRIVATIZATION OF SERVICES			
Consolidate Police and Fire Dispatch. Fire Dispatch already performing Public Works dispatch. Combined Baseline Budget of \$14,594,812 with 61 employees including 11 Supervisors. Proposed initial cost savings four positions. Implement plan in 2014.	\$ -	\$ (494,976)	\$ (494,976)
TOTAL CONSOLIDATION/PRIVATIZATION OPTIONS	\$ -	\$ (494,976)	\$ (494,976)

a. Revised Contract Payments, Settlements and Debt

On March 17, 1997, the City entered into an agreement with the California Department of Boating and Waterways for a planning loan to provide funding toward a feasibility study regarding the potential construction of waterfront improvements.

That feasibility study led to the development of the Stockton Marina facilities. The City sees no legally enforceable obligation to pay the debt service on this obligation; however, it will continue the modest subsidy to keep it open but not

pay any debt.³² The Marina has operated at a net loss and will continue to rely on subsidies to operate, but there is no reason for the City to continue its subsidies as it is not legally obligated to make these payments.

b. Reduced Reinstated Fiscal Measures

The Alternative Model reflects the deferment of the Fiscal Emergency Measures that were added to the FY 2012-13 Budget. These reductions include:

- ④ Delay remaining fiscal stabilization measures that further increase preventive maintenance
- ④ Reduce increase in funding for preventive maintenance
- ④ Reduce funding transfers to the Internal Service Funds for Computer Technology and rebuilding the internal service funds
- ④ Eliminate funding for the phase-out of the furlough days

c. Consolidation of Services/Managed Competition/Privatization

A&M has provided a series of recommendations on the consolidation of services, privatization and managed competition areas. One efficiency measure the Alternative Model recommends is the consolidation of Police and Fire Dispatch functions. This recommendation is based on additional operational and financial efficiencies in the delivery of critical public safety functions.

Cities like City of Kansas City, Kansas, City of Kalamazoo, Michigan, and City of Charleston, South Carolina are just a few of the many municipalities which have combined their 911 dispatch functions. For preliminary modeling purposes the cost savings is based on the elimination of four supervisor positions. Other cities have experienced significantly higher savings, however.

In addition to the above cost-cutting measures, other options and alternatives the City should have considered include:

- ④ Outsourcing/shared service/government consolidation opportunities

³² City "Ask" P. 46

- Shared services (IT, payroll, Accounts Payable, administrative services)
- Consolidation county services (IT, Police/Sheriff, employee health programs)
- Fleet management
- Parking enforcement
- Engineering
- Recreation
- School Resource Officers (Note that costs for officers can be fully recovered from schools)
- Animal Control (including sheltering facilities)
- Fire service opportunities
- Consolidated Public Safety Department
- ④ Managed competition and cost avoidance initiatives
 - Four-day workweek for all non-public safety operations
 - Health care dependent audit
- ④ Capital Improvement Program - this is a cost-effective means for street maintenance and asphalt overlay

VIII. CONCLUSION

In summary, the City does not have a reliable handle on either its current finances or its future finances, continues to fund unneeded programs and services, and has refused to explore sources of available revenue and revenue enhancement measures through all relevant periods. Stockton can achieve various budget efficiencies that, when combined with revenue enhancements, would allow the City to remain viable and cash flow solvent outside of bankruptcy.

IX. ACKNOWLEDGEMENT

This report is based on estimates, assumptions, and information gathered from our research related to the City of Stockton current and prior year budgets, CAFR's, and the adopted Pendency Plan. The sources of information and bases for the assumptions are stated herein. While we believe that the sources of information are reasonable and reliable, Alvarez & Marsal has not, as part of this engagement, performed an audit or review of any of the financial information used and therefore does not express an opinion or any other form of assurance on the accuracy of such information. Appendix C lists documents used in the preparation of this report.

Since our recommendations and conclusions are based on estimates and assumptions that are inherently subject to uncertainty and variation depending on evolving events, we do not represent them as results that will or will not be achieved. Some assumptions inevitably will not materialize while unanticipated events and circumstances will occur; therefore, the actual results achieved may vary materially from the examples and conclusions herein. The terms of our engagement do not provide for reporting on events and transactions that occurred subsequent to our research completed on December 14, 2012.

Respectfully submitted,



Nancy L. Zielke, Senior Director
Alvarez & Marsal Public Sector Services, LLC.
December 14, 2012

X. APPENDICES

Appendix A C.V. of Nancy L. Zielke

Appendix B Estimation of Three-Year Savings from Hardship Amortization

Appendix C Documents Reviewed



APPENDIX A

NANCY L. ZIELKE, SENIOR DIRECTOR			
Education	<ul style="list-style-type: none"> • Bachelor's degree in business administration, with concentrations in economics and marketing, from Adrian College. • Master's degree in public administration from the University of Kansas with concentration in urban management. 		
Years of Experience	28 years		
<p>Nancy Zielke is a Senior Director with Alvarez & Marsal (A&M) Public Sector Services LLC. Her primary areas of concentration include: public sector financial advisory services; revenue forecasts; internal business process improvement; and economic development and capital financings for state and local governments.</p> <p>With more than 28 years of public sector experience, Ms. Zielke brings deep expertise in state and local government and higher education budgeting and performance management systems; financial accounting and reporting applications and systems; revenue forecasting and cost of service studies; tax exempt capital financings; economic and community development planning; labor negotiations, privatization and outsourcing opportunities; enterprise resource planning implementation projects; and strategic planning within complex government organizations.</p> <p>Since joining A&M in May 2007, Ms. Zielke has been a key resource and project consultant on several major state and local government and education financial advisory service projects. Major financial advisory and consulting projects have included:</p> <table style="width: 100%; border: none;"> <tr> <td style="vertical-align: top;"> <ul style="list-style-type: none"> ▲ Kansas City Board of Public Utilities ▲ Unified Government of Wyandotte County/Kansas City, Kansas ▲ City of Overland Park, Kansas ▲ City of Leawood, Kansas ▲ City of Olathe, Kansas ▲ City of Louisburg, Kansas ▲ City of Riverside, Missouri ▲ City of Lees' Summit, Missouri ▲ Detroit Public Schools ▲ Pittsburgh Public Schools </td> <td style="vertical-align: top;"> <ul style="list-style-type: none"> ▲ Los Angeles Public Schools ▲ City of Seabrooke, Texas ▲ City of Huntsville, Texas ▲ San Jacinto Community College ▲ Maricopa County Community College ▲ State of South Carolina Department of Health & Human Services ▲ Hartung & Schroeder, LLP ▲ Sunflower Redevelopment Authority, Inc. ▲ Kansas Unified Development, Inc. ▲ Sidley Austin LLP and Guaranty Municipal Corp. ▲ Montague Investment </td> </tr> </table> <p>Prior to joining Alvarez & Marsal, Ms. Zielke worked in state and local government, public utilities and higher education, where she served in senior financial and administrative positions (City of Kansas City, Kansas; Kansas City Board of Public Utilities, University of Missouri-Kansas City; and the State of Kansas). Ms. Zielke has been a member of Government Finance Officers Association (GFOA), where she served on the Executive Board for six years and was the elected 2004-2005 National President of GFOA. Ms. Zielke was an appointed member to the City of Kansas City, Missouri process improvement review task force studying the City's Occupational Business License program function and the City's Wet Weather Storm Water Master Plan Committee. Ms. Zielke was also appointed by the Mayor/CEO of Wyandotte County/Kansas City, Kansas to serve on the Prairie-Delaware Master Plan Committee.</p> <p>She is a member of Women in Public Finance, GFOA, Alpha Kappa Psi, and the Kansas University City Management in Training Association and the Junior League of Wyandotte & Johnson Counties in Kansas. She serves as an advisor to the GFOA Governmental Budgeting and Fiscal Policy Standing Committee and a reviewer for the GFOA Awards for Excellence Program and Distinguished Budget Awards Program. As an author and speaker, she has made numerous presentations on a wide variety of topics, including strategies for business process improvement, leadership, and best practices in budgeting and resource allocation strategies.</p>		<ul style="list-style-type: none"> ▲ Kansas City Board of Public Utilities ▲ Unified Government of Wyandotte County/Kansas City, Kansas ▲ City of Overland Park, Kansas ▲ City of Leawood, Kansas ▲ City of Olathe, Kansas ▲ City of Louisburg, Kansas ▲ City of Riverside, Missouri ▲ City of Lees' Summit, Missouri ▲ Detroit Public Schools ▲ Pittsburgh Public Schools 	<ul style="list-style-type: none"> ▲ Los Angeles Public Schools ▲ City of Seabrooke, Texas ▲ City of Huntsville, Texas ▲ San Jacinto Community College ▲ Maricopa County Community College ▲ State of South Carolina Department of Health & Human Services ▲ Hartung & Schroeder, LLP ▲ Sunflower Redevelopment Authority, Inc. ▲ Kansas Unified Development, Inc. ▲ Sidley Austin LLP and Guaranty Municipal Corp. ▲ Montague Investment
<ul style="list-style-type: none"> ▲ Kansas City Board of Public Utilities ▲ Unified Government of Wyandotte County/Kansas City, Kansas ▲ City of Overland Park, Kansas ▲ City of Leawood, Kansas ▲ City of Olathe, Kansas ▲ City of Louisburg, Kansas ▲ City of Riverside, Missouri ▲ City of Lees' Summit, Missouri ▲ Detroit Public Schools ▲ Pittsburgh Public Schools 	<ul style="list-style-type: none"> ▲ Los Angeles Public Schools ▲ City of Seabrooke, Texas ▲ City of Huntsville, Texas ▲ San Jacinto Community College ▲ Maricopa County Community College ▲ State of South Carolina Department of Health & Human Services ▲ Hartung & Schroeder, LLP ▲ Sunflower Redevelopment Authority, Inc. ▲ Kansas Unified Development, Inc. ▲ Sidley Austin LLP and Guaranty Municipal Corp. ▲ Montague Investment 		



NANCY L. ZIELKE, SENIOR DIRECTOR

Public Sector Financial Advisory Consulting Experience

Senior Director – Alvarez & Marsal, Kansas City, Missouri

Since May 2007 serving as a financial advisory services consultant to municipal and state governments public utilities, and public education institutions. Primary areas of concentration include: public sector financial planning and management analyses; internal business process improvement; and economic development and capital financings for local and state governments, public utilities, and institutions of higher education. Current consulting experiences include:

- **Public Education Financial Advisory Services** Financial and organization improvement consulting experience with primary, secondary and higher education systems to improve both efficiency and effectiveness of education environments.

K-12 Education Systems

- **Humble Texas Independent School District:** Key project manager with a Houston area suburban school district in assessing how they can improve the allocation of resources to schools in a more equitable and transparent manner. This financial assessment focuses on how resources can be more efficiently and equitably allocated to potentially reduce inequities and underfunded priorities in the District. This project also includes assisting the District in creating a set of key performance measures that can gauge the progress of the District, and includes a review of current financial planning and budgeting, creating a process that is transparent and open, with opportunities for input from the stakeholders.
- **Detroit Michigan Public Schools:** Key project manager in the development of a five-year financial plan to curtail a \$305 million legacy deficit and discovered key operating reductions for both the FY2011 and FY2012 and future budget years, including streamlining departments and improving internal budget processes. Worked with the appointed Emergency Manager in the development of a deficit elimination plan, cost savings strategies including the privatization of various business support services and the deployment of a school costing model. Served as the interim Deputy Chief Finance Officer and oversaw the transition budget blueprint in for long term financial sustainability plans including self assessment of key policies, procedures and business practices needed to address correction action plan issues.
- **Pittsburgh Public Schools:** Project advisor for a budget restructuring initiative to review and validate FY2012 budget and FY2013 budget revenue and expenditure projections. A&M validated the revenue and expense projections for PPS' FY2012 General Fund budget, reviewed and evaluated existing deficit elimination plans, and identified potential opportunities for additional cost savings. In Phase 1, identified \$4 million in savings for FY2012. In Phase 2, developed a multi-year budget forecasting model and identified \$17 million of initiatives. Recommended a new budgetary process including required financial policies.
- **Los Angeles Unified School District:** Project advisor for an organizational and financial assessment on of LAUSD on behalf of the Broad Foundation. As the second largest K-12 school district in the country with over a million students, LAUSD faced a potential \$408 million deficit for FY2011 after reducing \$1.5 billion in expenditures over the prior two years. Conducted an evaluation of LAUSD's Budgeting for Student Achievement program which was focused on extending weighted student funding from its pilot schools to the entire district. Additionally, through an analysis of the entire budget, identified nearly \$200 million of recurring cost savings initiatives, developed an implementation plan for district-wide weighted student funding and a multi-scenario budget tool to assist with identifying the impact of various educational, economic and policy decisions.
- **Confidential Client:** A&M was recently engaged by the state-level government of a U.S. territory to assess its current operational efficiency and financial performance, amid a highly politically-charged environment and a series of "downgrades" from all major rating agencies. The A&M team was engaged across the state's Healthcare, Education, Public Safety and Tax agencies and designed a \$1B fiscal and operations improvement program over the next two to three years to ensure budgetary and operational goals were achieved without

NANCY L. ZIELKE, SENIOR DIRECTOR

distressing public services.

Served as key project director where A&M performed an operational and financial assessment of the Education Agency including, school site visits, ride-along, student-teacher ratios/statistical review, academic and curricula review and special education consideration, and the review noted over \$105M in savings.

Additionally, through A&M's understanding of tax policy, compliance and regulations, and the application of tax strategies, the team helped to uncover over \$500M in additional revenue. Within the government's healthcare operations, A&M outlined a strategy to consolidate hospitals and upgrade facilities to improve efficiencies and patient care while reducing overall costs by over \$40M, and assumed an interim management of a hospital, running the financial operations and prioritizing patient care. The team's operational assessment and implementation within the Public Safety operations resulted in initial saving of over \$50M.

Higher Education

- **Maricopa County Community College District:** Key project director in a financial and organizational assessment of the largest US Community College district with the development of a new organizational design. Completed a financial and organizational assessment of the largest US Community College district with the development of a new organizational design. The central focus of the review was on enhancing student achievement, satisfaction and success through the reengineering and transformation of business and administrative services across this 10 college system. The scope of the transformation program encompassed all financial, operational, organizational and Information technology components of the system's central entity as well as the 10 major constituent member colleges. Developed a comprehensive blueprint to streamline and optimize the system, and identified an estimated \$50 million in annual potential savings as a result of these streamlined processes and organizational changes.
- **Confidential Client:** Project advisor on a financial advisory service and private equity due diligence review related to a potential purchase of a for profit private University. Analysis included a proforma analysis of the tuition, fees and private donation monies compared to student academic and learning needs. Analysis included capital facility site tour of various campuses to determine the occupancy rates for the major professional classrooms and student related counseling, advising and student engagement requirements. Project included development of benchmarks and cost ratios and financial indexes.

④ **Economic Development Financial Advisory Services** Key project manager on several retail sales tax studies related to Tax Increment Finance, Transportation Development Districts and STAR Bond financings. Findings of economic impact studies and revenue analysis have been presented to governing bodies, rating agencies, and official statement documents. Project manager over numerous economic impacts, revenue projections, and retail market analysis for several major tourism and retails development projects. Approach to the fiscal impact studies included:

- Projection of estimated revenues (sales, income, property, and other local revenues), attraction attendance and project related revenues
- Fiscal and economic impact of the proposed development to the local economy and similar developments
- Economic impact of the proposed development on the local economy (includes direct /indirect /induced expenditures, and direct job creation) through the application of IMPLAN[®] modeling applications
- Determination how the jobs and revenues obtained from the project will contribute significantly to the economic development of the state and region
- Analyze the unique quality of the projects

④ **State Medicaid Cost Financial Advisory Services** Key project director recently worked with the Secretary of South Carolina's Department of Health & Human Services, to improve internal financial and operational processes. Work specifically focused on: improving budgeting processes, forecasting and reporting; identifying potential operational cost savings; documenting sources of funds and the cash reconciliation process; proposing a new organizational

NANCY L. ZIELKE, SENIOR DIRECTOR

structure for finance and administration; validating the budget for FY2012; developing the budget for FY2013; and developing fiscal forecasts for FYs 2014 and 2015. Ms. Zielke also served as the Interim Director of Policy and Budget Planning for SCDHHS.

- **Internal Controls Review** Key project manager of a financial and internal controls review of the use of hotel occupancy tax receipts to ensure compliance with local policies and procedures and state statute. Completed best practice review of similar Texas governments in how hotel taxes were being used and locally administered. Final report identified various policy and internal control improvements.
- **Municipal Utilities Financial Advisory Services** Key project manager in assisting the Kansas City Board of Public Utilities in a high level financial and organizational assessment of how the municipal electric and water service operations can achieve optimal efficiency while maintaining effective internal controls. Examining BPU's current key business practices and benchmarking them to national standards to ensure the application of best in class practices and policies. Also providing recommendations on how to improve budgeting practices and revenue forecasting, financial reporting and cash management practices. Major Financial Advisory projects include:

 - **Organizational and Financial Assessment** Completed various organizational and financial risk assessment on various administrative support (*finance, accounting, internal audit, information services, revenue forecasting, and budget*) for the Kansas City, Kansas municipal electric and water utility. Review aimed to increase accountability of various business units and focus on areas for improved internal controls.
 - **Financial Policies, Budgeting and Reporting** Provided a series of recommendations on how to improve budgeting practices and revenue forecasting, financial reporting and cash management practices. Assisted the public utility in completing other various financial analysis and best practice reviews related to financial performance, issuance of long-term debt, arbitrage rebate, and cost of "free" services.
 - **Automated Metering Information** Assisted the BPU with the development of RFP requirements for automated metering information (AMI) system.
 - **Cost of Service/Rate Adjustments** Assisted the BPU with its Cost of Service presentation process in developing key exhibits and business case for upcoming rate hearings and community meetings.
 - **Energy Efficiency Programs** Developed program structure for revolving loan program for utility to participate in the Efficiency Kansas loan program for residential and commercial studies.
 - **Benchmarking/Balanced Scorecard** Coordinated the deployment of department/program operating performance ratios, benchmarks and measurements for increased accountability in BPU's operational performance. Assisting in linking performance indicators to management reporting, performance evaluations, and 2011 Budget.
- **Disaster Recovery Advisory Services** Key project director assisting several Houston area local governments with the FEMA public assistance and insurance claim recovery efforts related to Hurricane Ike. Reviewed and recommend refined operating policy and procedures related to both financial and operating needs in preparing for the event of future natural or man-made disasters.
- **Municipal Bankruptcy Advisory Services** Key project consultant assisting Assured Guaranty Municipal Corporation with the financial review and analysis of Pendency Plans and financial/budgetary models for two recently filed municipal bankruptcy's (City of Stockton, CA and Harrisburg, PA). Providing financial analysis during the court-mandated mediation process as part of its Chapter 9 proceedings as well as pre-filing AB 506 mediation. In addition to advisory work.. Also providing analytic support to the credit insurer of various bonds financing the City of Harrisburg, PA.
- **Business Valuation/Financial Advisory Services**

 - Project consultant for a cost of service analysis related to use of public right of ways related to the Kragnes, et al, v. City of Des Moines in the Iowa State Court in Des Moines related to the class of rate payers affected

NANCY L. ZIELKE, SENIOR DIRECTOR

by an increase in franchise fees. The case had state-wide impacts on municipalities and taxpayers as to what constitutes a tax, right-of-way valuation and cost of administering utilities in the right-of-way. A&M testified for Plaintiffs in this class action franchise fee/franchise tax matter to the value of municipal rights of way, incremental costs of maintaining the rights of way, budget and property tax analyses.

- Project manager and expert witness for the City of Louisburg, Kansas in the Rural Water District No. 2 of Miami County Kansas v. City of Louisburg matter to analyze Plaintiffs' claims in this matter. Analyzed the effects of a series of annexations by the City on Rural Water District No. 2 and the financial impact with the acquisition of the assets.

State and Local Government Financial Administrative Experience

Local Government Experience

City of Kansas City, Kansas (Unified Government of Wyandotte County/Kansas City, Kansas)

Served as the Finance/Budget Director for the City of Kansas City, Kansas and the Unified Government of Wyandotte County from 1984 to 1997. More than 15 years of administrative oversight of financial management service functions including long debt management, budget and capital planning, payroll, purchasing, accounting, treasury, business licenses, weights and measures, risk management, intergovernmental affairs, and city clerk programs. Major accomplishments and professional experiences include:

- **Annual Operating and Capital Budgeting** Experienced in developing, implementing and administering local government operating budget over \$250 million and five year capital maintenance and improvement plans. Worked with Citizens' Advisory Council in developing capital improvement and neighborhood priorities for master plans. Experienced in federal reporting requirements for Community Development Block Grants. Budget documents received the GFOA Distinguished Budget Award.
- **Revenue Forecasting and Modeling** Developed multi-year revenue models for local government revenues including general operating fund, special highway and park funds, and enterprise funds (sewer and Business Park, and golf course enterprise system) funds.
- **Economic Development and Fiscal Impact Statements** Prepared fiscal impact analyses related to tax exempt, tax increment, housing, and industrial revenue bond financing proposals. Provided fiscal impact and market studies on the economic and community impact of major retail, residential, commercial, and tourism related development projects.
- **Consolidation of Government Services** Member of the Executive Transition Committee for the Consolidation of Government. Developed and implemented shared service centers, transactional and process reviews, and consolidated financial reporting and systems.
- **Enterprise Resources Planning Systems** Project Administrator for implementation of new integrated financial management and budget planning information system applications. Process included development of request for information/proposal, contract negotiations, lease financing analyses, and project implementation.
- **Legislative Affairs and Expert Witness** Experienced as expert witness to state and federal legislative and regulatory agencies. Provided legislative liaison support for governmental entities monitoring and testifying to state legislation committees.

Kansas City, Kansas Board of Public Utilities

Served as the Assisted General Manager/Chief Financial Officer for the Kansas City Board of Public Utilities (KCBPU) from 1997 to 2001. Was responsible for the financial operations including all fiscal, customer service, information technology, business and management support services. Work responsibilities included oversight of cost of service studies, strategic planning, performance benchmarking, and debt financing initiatives. Major accomplishments and professional experiences include:

NANCY L. ZIELKE, SENIOR DIRECTOR

- **Annual Operating and Capital Budgeting** Experienced in the development, administration and execution of operating (\$330 million) and capital (\$600 million) budgets including multi-year financing plans for combined electric and water utility enterprise operation. Budget document received the GFOA Distinguished Budget Award.
 - **Tax Exempt Revenue Financing and Debt Management** Experienced in developing and implementing utility enterprise revenue debt policies and financing plans for major capital construction and equipment needs, investment strategies, complex debt restructurings, and ongoing investor relationships. Successful working relationships with all three rating agencies in presenting financial, economic and community profile information to improve utilities ratings.
 - **Enterprise Resource Planning Systems** Completed strategic plan for business technology needs for the combined utility system that identified system application and major software priorities. Implementation of utility billing system applications including the development of request for proposal, selection, contract negotiations, implementation plan. Identified opportunities and efficiencies of automated meter reading technology.
 - **Cash Management and Investment** Experienced in the development and issuance of cash management policies and procedures, competitive bidding of banking services, and lockbox operations. Expertise in the calculation of arbitrage rebate policy and enforcement provisions.
 - **Financial and Economic Impact Analyses and Studies** Completed financial analyses and efficiency studies including cost of service rate studies, administrative overhead cost allocation, outsourcing modeling, economic impact on development proposals, labor negotiations and arbitrations impact analysis, and business process reviews.
 - **Corporate Financial Reporting and Accounting** Developed user friendly financial reporting and performance benchmarks for the combined Utility reporting system. Implemented a new chart of accounts that reflected cross reporting purposes for FERC and GAAP financial reporting needs. Annual comprehensive financial report received the GFOA Certificate of Achievement Award.
- Professional Associations** Former active member of the American Public Power Association. Served as the Vice Chairperson of the Business and Finance Section on General Accounting, Finance and Auditing.

Higher Education Experience

University of Missouri - Kansas City

Served as the Assistant Vice Chancellor for Fiscal Operations at the University of Missouri- Kansas City. In this capacity, responsible for fiscal service operations of the 14,000 urban student campus with direct oversight of fiscal services, (budget, accounting, financial reporting, accounts payable, accounts receivable cashier/bursar, student loans, and procurement), long term capital planning, revenue forecasting, coordination of internal audit reporting and other key administrative service functions. Major accomplishments and professional experiences include:

- **Higher Education Budgeting and Capital Planning** Experienced in the development, administration and execution of operating and capital budgets including tuition, ancillary student fees, rate and auxiliary support service pricing models. Developed appropriation requests and monthly/quarterly financial management reports. Worked with campus facilities management and Vice Chancellor Office in the development of the multi-year capital construction appropriation requests and financing plans.
- **Responsibility Center Management and Budgeting** Campus project leader for the Budgeting for Excellence initiative which designed a new budget process for strategic allocation of resources to achieve excellence and supports the vision and values of the Institution and deployment of a Responsibility Center Management budgeting process. Model and planning approach received the 2003 GFOA Awards for Excellence in Management Services
- **Outsourcing Business/Shared Services Process Implementations** Experienced in the review and development of outsourcing business models and implementation strategies. Developed outsourcing solutions for student loan billing and collections and participated in the transactional review for outsourcing opportunities of printing services,

NANCY L. ZIELKE, SENIOR DIRECTOR

housing, and bookstore operations. Reviewed opportunities for “shared service” business model applications.

- ***Certification of Internal Controls*** Developed financial certification process for all major department and divisions. Documentation of campus business policies and deployment of fiscal officer training and yearend financial statement/internal control certification program.
- ***Performance Management (Balanced Scorecard) Systems*** Deployment of “Balanced Scorecard” for administrative and financial service program areas linking operating performance to customer expectations and resource allocation decision making. Project was awarded 2006 GFOA Award for Excellence in Management Services.
- ***Enterprise Resource Planning and Financial Reporting Applications*** Project management experience in the implementation of PeopleSoft Financial and Student System Applications. Worked on intra-campus and System Office initiative for integrated (student, financial, and academic) reporting resulting in the creation of a data warehousing solution (Congas).
- ***Business Process Improvement Strategic Planning*** Successful implementation of business processes and redesign improvement initiatives to support key critical business functions, including accounts payable, accounts receivable, cashiers, student loans, procurement, payroll, fixed assets, student one card, and central financial administration. Approach and methodology was awarded the 2004 GFOA Award for Excellence.
- ***Trustee Endowment Financial Accounting*** Served as the appointed assistant treasurer for the financial reporting and investment oversight of Trustee related endowment and gift funds. Experienced in the selection of fund managers and SAS-70 internal control reviews.
- ***Professional Associations*** Former active member of the American Public Power Association. Served as the Vice Chairperson of the Business and Finance Section on General Accounting, Finance and Auditing.

Other State and Local Government Experience

- Government Finance Officers Association President (2004 – 2005) and Member of the Executive Board (2001 to 2006)
- State of Kansas (Governor’s Office/Department of Transportation: Policy Analyst/Governor’s Fellow (1982 - 1984)
- City of Coon Rapids, Minnesota: Management Analyst (1981 - 1982)
- University of Kansas Office of Business Affairs: Graduate Research Assistants (1980 - 1981)
- City of Adrian, Michigan: Department of Housing and Community Development Intern (1979 - 1980)
- Berrien County, Michigan: Extension Office 4-H Program Intern (1978-1979)

Testimony Experience

- State of Kansas Legislative Committees on Taxation, Appropriations, Ways and Means, Local Government, and Transportation and Utilities.
- United States Department of the Internal Revenue Service in arbitrage compliance.
- United States Federal Court on government official business practices.

NANCY L. ZIELKE, SENIOR DIRECTOR

Deposition and Expert Witness Trial Experience

- Miami County, Kansas District Court: Rural Water District No. 2 vs. City of Louisburg, Kansas. Represented Defendant – City of Louisburg, Kansas. 2011.
- United States Federal Court, Kansas City, Kansas: Expert government witness for the US vs. Joseph E. Steineger and Peter Adams.
- State of Kansas District Court related to labor mediations and fact finding proceedings.

Author of Selected Publications

- “Stepping Up: Finance Officers and the Leadership Imperative”, Government Finance Review, August 2004.
- “Revamping Businesses: Cutting Red Tape”, National Association of College and University Business Officers NACUBO Business Officer, July 2004.
- “Finding Opportunities Budgeting for Excellence: How the University of Missouri-Kansas City Transformed Its Budget Process Using the NACSLB Standards”, Government Finance Review, February 2004.
- “Year 2000 Technology Update - Review Roundup”, Government Finance Review, October 1999.
- “Priorities for Government Finance Officers: Highlights of Newly Elected Executive Board Members”, Government Finance Review, August 1999.

Professional Awards and Certifications

- Certified Emergency Manager - State of Michigan, Winter 2012.
- 2006 GFOA Award for Excellence in Management and Service Delivery – “Our Accountabilities Plan: A Five Star Plan for Excellence.”
- 2004 GFOA Award for Excellence in Management and Service Delivery – “A-B-C’s in Redefining Business Processes: Accountability in Financial Management.”
- 2003 GFOA’s Award for Excellence in Budgeting and Financial Planning – “Budgeting for Excellence: New Standards for Higher Education Financial Management.”
- GFOA Distinguished Budget Awards – City of Kansas City, Kansas and Kansas City Board of Public Utilities.
- GFOA Certificate of Achievement for Financial Reporting – Kansas City Board of Public Utilities.

Key Speaker/Panelist at Professional Conferences and Association Meetings

“Budgeting for Excellence: New Standards for Higher Education Financial Management”

- American Society for Public Administration Conference, 2004.
- National Association of College and University Business Officers Conference, 2004 and 2005.
- National Consortium for Continuous Improvement in Higher Educations, 2005.

Government Finance Officers Association (GFOA) Conferences and Training Seminars

- Best Practices in Local Government Financial Statement Presentations, 1991.
- Revenue Alternatives for Cities and States (Gaming Issues), 1992.
- Organizing Your Budget Office, 1993.
- Distinguished Budget Awards Program Criteria, 1994.

NANCY L. ZIELKE, SENIOR DIRECTOR

- Performance Based Budgeting, Baltimore, Maryland, 1995.
- Lease Purchasing and Financing Alternatives, 1996.
- Distinguished Awards Program Mandatory Criteria, 1997.
- Emerging Issues of Electronic Commerce, 1998.
- E-Government Strategies and Challenges, 2001.
- Emergency Disaster Recovery Planning, 2002.
- Leadership for the Future, 2004.
- Expanding the Frontiers of Government Finance, 2005.
- Finance Officer Leadership May 2006.
- Redesigning Business Process, May 2006.
- Use of Performance Measurements in Budgeting Applications, 1994.
- Planning the Sale of Municipal Bonds, 1997 – 2004.
- Finance Officers and the Leadership Imperative Leadership for the Future, 2004.
- Advanced Government Institute, 2004.
- Leadership for the Future, Annual Conference President's Address, 2005.
- Accountability in Changing Organizational Cultures, 2008.
- Predicting the Future: Using the Most Appropriate Forecasting Methods, 2009.
- Effective IT Governance Structures, 2012.

Midwest Regional Public Finance Conference and Kansas GFOA Conferences

- Fraud and Early Detection Practices, 1996.
- Developing Capital Plans, 1998.
- Emerging Issues of Technology and E-Commerce, 1998.
- E-Commerce and How It Changes How Governments Do Business, 1999.
- GFOA Standing Committee – How to Become Involved in GFOA, 2001.
- Finance as a Catalyst in Re-engineering the Organization, 2003.
- Business Process Reviews, Streamlining Organizations and P-Cards, 2007.
- Best Practices in Budgeting, 2008.
- The Other Side of Economic Development, 2008.
- Predicting the Future: Forecasting Strategies and Appropriate Approaches, 2010.
- Navigating Through Financial Difficulties, 2011.

Government Finance Officers Association - President

- President address at the 2005 Annual GFOA Conference.
- President-elect address at the 2004 Annual GFOA Conference.
- Keynote at more than 20 state GFOA Association meetings on GFOA's strategic initiatives and policy issues.
- Traveled internationally to speaking to various state and local government strategic financial issues and best practices

APPENDIX B

Estimation of Three-Year Savings from Hardship Amortization
Source: Pension Trustee Advisors, December 11, 2012

ESTIMATION OF THREE-YEAR SAVINGS FROM HARDSHIP AMORTIZATION

	Safety	Miscellaneous	Total
FY 2013 Amortization Payment – from 2010 Actuarial Report	\$6,704,208	\$4,095,062	\$10,799,270
30 Year Amortization Amount	\$6,268,419	\$3,283,028	\$9,551,447
Total Hardship Savings – FY 2013	\$435,789	\$812,034	\$1,247,823
FY 2014 Amortization Payment from 2011 Actuarial Report	\$7,521,294	\$4,314,437	\$11,835,731
30 Year Amortization Amount	\$6,931,705	\$3,401,644	\$10,333,349
Total Hardship Savings – FY 2014	\$589,589	\$912,793	\$1,502,382
FY 2015 Amortization Payment – PTA Estimate	\$8,845,550	\$4,606,925	\$13,452,476
30 Year Amortization Amount	\$8,038,040	\$3,657,219	\$11,695,259
Total Hardship Savings – FY 2015	\$807,511	\$949,706	\$1,757,217
Total Three Year Hardship Savings – FY 2013 – FY 2015	\$1,832,889	\$2,674,533	\$4,507,422

APPENDIX C - Documents Reviewed

- City Council Fiscal Update, February 28, 2012
- Stockton AB 506 Proposal, May 7, 2012
- Vacancy Report ,April 2012
- Stockton 2011 CAFR Extension Notice
- Stockton FY 2000-01 to 2010-11 CAFR Reports
- Stockton FY 2012-2013 Proposed Annual Budget
- Stockton FY 2012-13 Budget Amendment, September 11, 2012
- Stockton FY 2011-12 Unaudited General Fund Budget to Actuals and FY 2012-13 First Quarter General Fund Results, December 11, 2012
- Stockton Approved Annual Budgets for FY 2000-01 to 2011-12
- Stockton Pendency Plan, June 26,2012
- City of Stockton's "Ask", May 2012
- Stockton 10 year General Fund Budget Forecast Model City Proposed Budget
- CalPERS Annual Valuation Reports for 2006 to 2011 for Safety and Miscellaneous Employees
- Siegel Report. Health Plan Costs Projection for July 1, 2011 - June 30, 2012, and July 1, 2012 - June 30, 2013
- Retiree Healthcare Plan - Actuarial Valuation, as of June 30, 2011
- Government Finance Officers Association
 - Fiscal First Aid Best Practices
 - Recommended best Practices in Timeliness in Financial Reporting
 - National Association of State and Local Government Budgeting Report
- Peer City Analysis
 - City of Fairfield, California Approved 2012/13 Budget & Ten-Year Financial Plan
 - City of Fresno, California Adopted Budget Fiscal Year 2013
 - City of Bakersfield, California Fiscal Year 2012-13 Adopted Budget
 - City of Tracy, California Adopted Budget Fiscal Year 2012-13
 - City of Modesto, California Fiscal Year 2012 – 2013 Adopted Annual Operating Budget
 - City of Visalia Operating & Capital Budget Fiscal Years 2012-13 & 2013-14
 - City of Vallejo. Resolution 2012-01 – Approval of Parcel Tax. Website: <http://www.co.solano.ca.us/civicax/filebank/blobdload.aspx?blobid=12652>
 - City of Oakland. Measure BB – Revision of Measure Y. Website: <http://measurey.org/>
 - City of Davis. Measure D. Website: <http://www.yesondfordavis.org/>
- California City Finance Comparable Cities: (California Local Government Finance Almanac)
 - California City Finance Website – Database
 - California City Finance Website – Average Wage
 - California City Finance Website – California Sales Tax 11 -12
 - California City Finance Website – California Sales Tax 10 - 11
 - California City Finance Website – California Sales Tax 09 – 10
 - California City Finance Website – California Sales Tax 08 – 09 California City Finance Website – UUT Database California City Finance Website – Parcel Tax

- California City Finance Website – Transient Occupancy Tax
- City of Stockton Financial Policies
 - Reserve Policies
 - Debt Policy
 - Investment Policy
- Governing, November 26, 2012 – Tired of Service Cuts, California Cities Raise Taxes, <http://www.governing.com/columns/urban-notebook/Tired-of-Service-Cuts-California-Cities-Raise-Taxes.html>
- GFOA Zero Based Budgeting Modern Experiences and Current Perspectives 2011
- January 18, 2012 Memorandum Fiscal Year 2012-2013 General Fund Targets and Budget Instructions
- City Declarations and Supporting Exhibits (Montes, Burke, Hasse, Goodrich, Jones, and Locke)
- City of Stockton Memorandum of Understanding Between the City of Stockton and the Stockton Police Officers' Association - City Council Staff Report – December 11, 2012
- Depositions of Laurie Montes, Vanessa Burke, David Millican, and Robert Deis
- 2011 Society for Human Resources (SHRM) Human Capital Benchmarking Study (Non-Confidential Independent Study)
- Health and OPEB Funding Strategies. 2012 National Survey of Local Governments. Cobalt Community Research. (Non-Confidential Independent Study)
- 2012 Health Care Survey. Aon Hewitt. (Non-Confidential Independent Study)
- U.S. Bureau of Labor & Statistics, http://www.bls.gov/eag/eag.ca_stockton_msa.htm
- RealtyTrac, “59 Percent of U.S. Metros Post Higher Foreclosure Activity in First Half of 2012”, July 24, 2012, <http://www.realtytrac.com/content/foreclosure-market-report/midyear-2012-metro-foreclosure-market-report-7305>
- RealtyTrac, “62 Percent of U.S. Metros Post Annual Decrease in Foreclosure Activity in Third Quarter”, October 25, 2012, <http://www.realtytrac.com/content/foreclosure-market-report/q3-2012-metro-foreclosure-rates-and-rankings-7448>
- Douglas J. Peebles, “Stockton’s Bankruptcy: Not a Harbinger of Things to Come”, June 28, 2012, <http://blog.alliancebernstein.com/index.php/2012/06/28/stocktons-bankruptcy-not-a-harbinger-of-things-to-come/>
- John Gittelsohn and Prashant Gopal, “Foreclosure Wave Averted as Doomsdayers Defied: Mortgages”, November 29, 2012, <http://bloomberg.com/news/print/.../foreclosure-wave-averted-as-doomsdayers-defied-mortgages.html>
- Tod Newcombe, “Tired of Service Cuts, California Cities Raise Taxes”, November 21, 2012, <http://www.governing.com/columns/urban-notebook/Tired-of-Service-Cuts-California-Cities-Raise-Taxes.html>
- Vauhini Vara, “Facing Down the Budget Gap,” The Wall Street Journal, Feb. 24, 2011, <http://online.wsj.com/article/SB10001424052748704900004576152700727565170.html>
- “San Jose Budget Plan Details Deep Cuts,” CBS San Francisco, May 3, 2011, <http://sanfrancisco.cbslocal.com/2011/05/03/san-jose-budget-plan-details-deep-cuts/>
- Press Release, “City Manager Releases Proposed Operating Budget,” *City of San Jose*, May 2, 2011, <http://www.piersystem.com/external/content/document/1914/1078255/1/2011-2>

012%20Proposed%20Budget%20with%20Fact%20Sheet.pdf

- 2011-2012 Adopted Operating Budget: Summary of General Fund Uses, City of San Jose, <http://www.sanjoseca.gov/DocumentCenter/View/2571>
- 2011-2012 Adopted Operating Budget, City of San Jose, <http://www.sanjoseca.gov/DocumentCenter/View/2560>
- 2011-2012 Adopted Operating Budget in Brief, City of San Jose, <http://www.sanjoseca.gov/DocumentCenter/View/2885>
- Assistance to Firefighters Grant Program (AFG) FY 2011 Award Recipients, www.fema.gov/firegrants/
- Assistance to Firefighters Grant Program (AFG) FY 2012 Award Recipients, www.fema.gov/firegrants/
- Staffing for Adequate Fire and Emergency Response (SAFER) FY 2011 Award Recipients, www.fema.gov/firegrants/
- Staffing for Adequate Fire and Emergency Response (SAFER) FY 2012 Award Recipients, www.fema.gov/firegrants/
- Stockton Municipal Code. Section 1910 Annual Financial Statement.
- Susan Mayer. Letter to Laurie Montes. September 12, 2011
- California State Comptroller. Letter to City Manager Bob Deis. April 2, 2012
- California Board of Equalization. Detailed Description of the Sales & Use Tax Rate. Website: <http://www.boe.ca.gov/sutax/localdist.htm> – Dec 6, 2012.
- Smarter Voter. Measure U: Modernization of Communications User Tax City of Stockton. Website: <http://www.smartvoter.org/2008/11/04/ca/sj/meas/U/>
- David Siders. “Measure U Proponents scrambling to protect revenue”. Recordnet, October 18, 2008.
- Joe Quinn. “Is the 911 Fee Road Worth? The Design and Viability of 911 Fees”. Meyers, Nave, Ridback. Unknown. <http://www.cacities.org/UploadedFiles/LeagueInternet/9d/9d5f795b-2618-4dc4-867f-ed79547e8f0f.pdf>
- San Francisco Planning and Urban Renewal. Proposition O – Changes to the Emergency Response Fee. www.spur.org/goodgovernment/ballotanalysis/nov2008/propo
- Howard Jarvis Taxpayers Association. How to defeat Local Parcel Taxes. <http://www.hjta.org/tools/how-defeat-local-parcel-taxes>
- Fire Recovery USA. About Our Service. http://firerecoveryusa.com/images/Emergency_Response_Cost_Recovery_Program.pdf
- City of Stockton. Open Survey Results. 2010, Contact: Troy Walsh (Chief Executive Officer) <http://www.stocktongov.com/files/Open%20Survey%20Results.pdf>
- City of Kalamazoo: Cooperation, Collaboration and Consolidation of Services Plan: Category 2 of the State of Michigan Economic Vitality Incentive Program (EVIP), Public Act 63 of 2011, Section 951(3)b
- Community Oriented Policing Services, “Vets to Cops”, <http://www.cops.usdoj.gov/Default.asp?Item=2630>

- David Sliders. Recordnet.com, "Measure U Proponents scrambling to protect revenue", http://www.recordnet.com/apps/pbcs.dll/article?AID=/20081018/A_NEWS/810180324/-1/A_COMM01
- Fairbank, Maslin, Maulin, Metz Associates. Open Survey, September 2012.
- California Association of Realtors, "Current Sales & Price Statistics", <http://www.car.org/marketdata/data/countysalesactivity/>
- STOCK 208587: Employee Total Compensation

Exhibits Reviewed

- Exhibit 11: Stockton – List of 20 Largest Unsecured Creditors
- Exhibit 12: Stockton - Support Document/Statement of Qualifications Under Section 109(c) Re: 1 Chapter 9 Voluntary Petition
- Exhibit 14: Burke, V. Declaration in Support of Statement of Qualifications
- Exhibit 16: Burke, V. Decl. Ex. B: City of Stockton Budget Forecast FY 11-12 through 20-21
- Exhibit 17: Burke, V. Decl. Ex. C: General Cash Flow Projection
- Exhibit 18: Burke, V. Decl. Ex. D: FY 2012-2013 Proposed Annual Budget
- Exhibit 19: Burke, V. Decl. Ex. E: General Fund Revenue Spreadsheet
- Exhibit 20: Burke, V. Decl. Ex. F: Preliminary Sales and Use Tax Revenues Projection
- Exhibit 21: Burke, V. Decl. Ex. G: FY 12-13 General Fund Expenditures
- Exhibit 22: Burke, V. Decl. Ex. H: Article re Stockton's new ballpark is centerpiece of ambitious plans to renew downtown
- Exhibit 23: Burke, V. Decl. Ex. I: Debt Burden - Not Affordable
- Exhibit 24: Burke, V. Decl. Ex. J: "How did we get here?" Presentation
- Exhibit 25: Burke, V. Decl. Ex. K: Development of Accrued and Unfunded Liabilities
- Exhibit 26: Burke, V. Decl. Ex. L: Retiree Health Cost Forecast
- Exhibit 27: Burke, V. Decl. Ex. M: Fiscal Year 2012-2013 Annual Budget
- Exhibit 28: Burke, V. Decl. Ex. N: City of Stockton Fund Restriction Table
- Exhibit 31: Goodrich, A. Declaration in Support of Statement of Qualifications
- Exhibit 32: Goodrich, A. Decl. Ex. A: Changes over last four fiscal years
- Exhibit 33: Goodrich, A. Supp. Declaration in Support of Statement of Qualifications
- Exhibit 34: Goodrich, A. Supp. Decl. Ex. A: Mediation Session Summaries
- Exhibit 35: Goodrich, A. Supp. Decl. Ex. B: Outcome of AB 506 Mediation Sessions
- Exhibit 36: Haase, T. Declaration in Support of Statement of Qualifications
- Exhibit 37: Haase, T. Decl. Ex. A: Memo w/attachments re: Accrual Valuation of Benefits Obligations for Stockton's Retiree Healthcare Plan for June 30, 2011
- Exhibit 38: Jones, E. Declaration in Support of Statement of Qualifications
- Exhibit 39: Jones, E. Decl. Ex. A: Stockton Police Report titled "Preventing Violent Street Crime in Stockton, California dated July 7, 2006
- Exhibit 40: Jones, E. Decl. Ex. B: Uniform Crime Reports

- Exhibit 41: Jones, E. Decl. Ex. C: Crime Comparison and Police Activity Highlights (December 2010)
- Exhibit 42: Jones, E. Decl. Ex. D: Table Listing Offenses Known to Law Enforcement by State by City (2010)
- Exhibit 43: Levinson, M. Declaration in Support of Statement of Qualifications
- Exhibit 44: Levinson, M. Decl. Ex. A: Stockton News Release re: Stockton's AB 506 Confidential Participants
- Exhibit 45: Levinson, M. Decl. Ex. B: Mediation Sessions Summaries
- Exhibit 46: Levinson, M. Decl. Ex. C: Outcome of AB 506 Sessions
- Exhibit 47: Locke, M. Declaration in Support of Statement of Qualifications
- Exhibit 48: Locke, M. Decl. Ex. A: Listing of Non-Essential Stockton Properties
- Exhibit 49: Millican, D. Declaration in Support of Statement of Qualifications
- Exhibit 50: Millican, D. Decl. Ex. A: City of Stockton's Proposals for Modification to Obligations Under AB 506 Process
- Exhibit 51: Montes, L. Declaration in Support of Statement of Qualifications
- Exhibit 52: Montes, L. Decl. Ex. A: Stockton Population Reports 2000-2012
- Exhibit 53: Montes, L. Decl. Ex. B: Stockton Net Taxable Assessed Value 1999-2012
- Exhibit 54: Montes, L. Decl. Ex. C: Sale & Use Tax Revenue FY 97 -FY 12
- Exhibit 55: Montes, L. Decl. Ex. D: Stockton Unemployment Rate Jan 2002-Jan 2012"
- Exhibit 56: Montes, L. Decl. Ex. E: The Guardian Article 7/28/2008"
- Exhibit 57: Montes, L. Decl. Ex. F: FHFA Report
- Exhibit 58: Montes, L. Decl. Ex. G: Median Sales Price 200-2012
- Exhibit 59: Montes, L. Decl. Ex. H: Families Below Poverty Level by City: 2009
- Exhibit 60: Montes, L. Decl. Ex. I: Business License Tax Revenue FY 97 - FY 12
- Exhibit 61: Montes, L. Decl. Ex. J: Mayor and CC Resolution Declaring State of Emergency
- Exhibit 62: Montes, L. Decl. Ex. K: CC/Redevelopment Agency 6/22/2010 Agenda
- Exhibit 63: Montes, L. Decl. Ex. L: Quarterly Review of Financial Conditions 2/15/2011
- Exhibit 64: Montes, L. Decl. Ex. M: CC continue Emergency Measure for FY11-12
- Exhibit 65: Montes, L. Decl. Ex. N: Budget Updates FY10-11 and FY11-12
- Exhibit 66: Montes, L. Decl. Ex. O: FY 11-12 Budget Update and 11-12 amended Budget
- Exhibit 67: Montes, L. Decl. Ex. P: City Financial condition assessment 2/2012
- Exhibit 68: Montes, L. Decl. Ex. Q: Fiscal Condition update FY10-11, 11-12 and 12-13
- Exhibit 69: Montes, L. Decl. Ex. R: Resolution declaring the Continuation of a Fiscal Emergency 2/28/2012
- Exhibit 70: Montes, L. Decl. Ex. S: Article, "Bond Trustee Gets Three Parking Garages in Stockton"
- Exhibit 71: Montes, L. Decl. Ex. T: Ralph R. Mabey Profile
- Exhibit 72: Montes, L. Decl. Ex. U: AB 506 Contingency Option
- Exhibit 73: Montes, L. Decl. Ex. V: Education Attainment Levels by City
- Exhibit 74: April 30 2012 AB 506 Mediation Presentation
- Exhibit 83: Stockton Police Department Crime Comparison and Police Activity Highlights December 2001 – December 2010

- Exhibit 84: 2012 CFS Recommendations regarding reprioritization of responses to calls for service
- Exhibit 85: Summary chart of data related to police officer staffing and crime statistics
- Exhibit 105: Parking Citation Aging Report
- Exhibit 106: Memorandum from Fairbank, Maslin, Maullin, Metz & Associates re: Summary of Key Survey Findings from 2012 Voter Survey
- Exhibit 109: Letter from Deis to Governor Jerry Brown and California Legislative Leaders regarding Pension Reform, and attaching memo from Police Chief Jones re: Police Officer Retention and Recruitment
- Exhibit 114: Letter from Haase to all City retirees re: filing of bankruptcy
- Exhibit 115: Spreadsheet reflecting Survey of California cities' Miscellaneous Pension Plan Benefits, including employer and employee contributions
- Exhibit 117: Spreadsheet of Amendments to FY 2010-2011 Budget and FY 2011-2012 Budget, including interfund transfers
- Exhibit 118: Draft Management Partners Report re: pension systems in non-CalPERS cities and pension reform in San Jose and San Diego
- Exhibit 119: Memo from Deis to all City Employees re: Status of Bankruptcy
- Exhibit 141: List of Cities with 2.5% at 55 for Miscellaneous
- Exhibit 142: List of Cities with 2.7% at 55 for Miscellaneous
- Exhibit 143: List of Cities with 2% at 55 for Miscellaneous
- Exhibit 144: List of Cities with 2% at 60 for Miscellaneous
- Exhibit 145: List of Cities with 3% at 60 for Miscellaneous
- Exhibit 146: List of Cities with 2% at 55 for Safety
- Exhibit 147: List of Cities with 3% at 50 for Safety
- Exhibit 148: List of Cities with 3% at 55 for Safety
- Exhibit 149: List of Cities with 2% at 50 for Safety
- Exhibit 151: Spreadsheet of cost savings in \$ amounts broken out by labor concession/cuts FY 2010-11
- Exhibit 153: Email re: Management Partners' review of California cities' retirement plans
- Exhibit 154: CalPERS Follow-up Notes from 8/8/12 Meeting with Ann and Teresia as well as SDT Meeting
- Exhibit 156: Email from Jan Perkins at Management Partners asking Stockton HR to review report
- Exhibit 157: Draft Memorandum from Management Partners comparing Stockton CalPERS benefits to other cities
- Exhibit 158: Email from Management Partners to Laurie Montes regarding edits/updates to compensation comparison analysis
- Exhibit 159: Draft Memorandum from Management Partners regarding comparison of CalPERS benefits
- Exhibit 161: Spreadsheet of Transfers and Loans in and out of Restricted Funds FY 2007-2008 and FY 2008-2009



- Exhibit 162: Spreadsheet of Transfers and Loans in and out of Restricted Funds FY 2009-2010 and FY 2010-2011
- Exhibit 165: Draft Management Partners Report re: CalPERS comparison data, with specific notes/questions for Haase, Goodrich, and Labor negotiator
- Exhibit 166: Email exchange between Belknap and Deis regarding Pension Reform in other cities
- Exhibit 168: Memorandum regarding reclassification of interfund loans as transfers
- Exhibit 183: Letter from City to CalPERS requesting revision to 5% COLA provision
- Exhibit 184: Letter from CalPERS to City rejecting request to adjust COLA provision
- Exhibit 189: Letter from Fire Union to Deis regarding disappointment at City's failure to pursue grant opportunities
- Exhibit 198: Email from B. Ulring to L. Lisenbee re: cutting police personnel and inability to generate revenue within police department
- Exhibit 205: "The Gravy Train Has Derailed" - Article criticizing Firefighters' overcompensation"
- Exhibit 206: Spreadsheet of Fire Department Salaries and Benefits by Individual
- Exhibit 207: Key Messages re: Police and Fire benefits and compensation changes
- Exhibit 208: Management Partners City of Stockton Financial Condition Assessment: Preliminary Observations and Recommendations
- Exhibit 209: Management Partners City of Stockton Financial Condition Assessment: Preliminary Observations and Recommendations - Executive Summary
- Exhibit 210: Management Partners proposal to provide project management for AB 506 process
- Exhibit 211: Email from [B. Deis] to D. Millican, R. Leland, A. Belknap, and L. Montes re: ability to pursue new taxes
- Exhibit 212: Chart regarding Review of Stockton Sports Facility Leases
- Exhibit 213: Memorandum from C. Godwin to L. Montes regarding Protection of City Revenue through Changes to Arena Sports Team Lease Contracts
- Exhibit 216: Grand Jury Report and Accompanying Press Release regarding Inefficiencies of Stockton Fire Department and potential savings
- Exhibit 217: Email from L. Montes to J. Perkins asking Management Partners to revise its report to match Deis's opinion of how it should read
- Exhibit 219: Email from V. Burke to J. Hikido re: fund balances and transfers from internal service funds to General Fund
- Exhibit 223: Letter regarding potential errors and issues in City audit and defining scope of auditors' work
- Exhibit 224: Spreadsheet of all 2010 Stockton Retirees with Salary and Benefits
- Exhibit 230: CalPERS Annual Valuation Report as of June 30, 2010 (Miscellaneous Plan)
- Exhibit 231: CalPERS Annual Valuation Report as of June 30, 2010 (Safety Plan)
- Exhibit 236: Staff Report re: Pendency Plan (FY 2012-13 Budget), attaching Summary of Pendency Plan Changes for Employees
- Exhibit 237: Staff Report re: Revised FY 2012-13 Budget
- Exhibit 238: FY 2012-2013 Proposed Annual Budget
- Exhibit 293: Santa Ana Budget Policy

- Exhibit 294: Santa Ana OKs new budget, fiscal policy _ city, budget, year - News - The Orange County Register
- Exhibit 295: Service Sharing in Napa
- Exhibit 307: 2010 California State Controller's Office City of Stockton Compensation Data
- Exhibit 309: Letter from John Chiang, California State Controller to Bob Deis regarding investigation of audit practices
- Exhibit 310: California State Controller: Investigative Auditing in Stockton California - UPDATE
- Exhibit 371: Michael Fitzgerald, "City Has Been Paying Illegal Benefits for Years" (printed from Stockton Record website)
- Exhibit 422: Stockton – Miscellaneous Plan Annual Valuation Report for June 30, 2011 (CalPERS)
- Exhibit 423: Stockton – Safety Plan Annual Valuation Report for June 30, 2011 (CalPERS)

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