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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 ROBERT C. BOBB 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**

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# EXHIBIT A

| <b>Robert C. Bobb, Owner, President &amp; CEO, Engagement Executive</b> |  |
|---|--|
| <b>Title/Proposed Role</b>  | President & CEO  |
| <b>Years of Experience</b>  | 40   |
| <b>Firm</b>   | The Robert Bobb Group, LLC   |
| <b>Education/Certifications</b>   | <ul style="list-style-type: none"> <li>▪ MS, Business, Western Michigan University, Kalamazoo, MI</li> <li>▪ BA, Political Science, Grambling State University, Grambling, LA</li> <li>▪ Certificate Program for Senior Executives in State and Local Governments, Harvard University's John F. Kennedy School of Government</li> <li>▪ Fellow, Broad Foundation Urban Schools Superintendents Academy</li> <li>▪ Honorary Doctor of Laws Degree, Walsh College</li> </ul> |

### **Professional Summary**

Robert C. Bobb leverages more than 40 years of executive management experience in both the private and public sectors. He is the owner, President and CEO of The Robert Bobb Group, LLC (RBG), a multi-faceted private/public sector consulting firm specializing in: Public and Private Sector Turnaround Consulting and Advisory Services; Financial and Organizational Restructuring; Budget Management Services; Labor Relations; Economic Development Advisory Services; Emergency Planning, Public Safety and Policing, Real Estate and Asset Management Services, Education, Local/State/Federal Government turnaround and contract negotiations. RBG primary objective is to help governments, schools and businesses find financial and operational solutions, greater efficiency and long-term viability.

Recently, Mr. Bobb served as Emergency Financial Manager of the 87,000-student Detroit Public Schools (DPS) from March 2009 through May 2011. Robert was appointed Emergency Financial Manager for DPS by Michigan Governor Jennifer Granholm, which was extended by her successor, Gov. Rick Snyder. DPS was a school district in crisis due to decades of mismanagement and corruption. He immediately assembled a team of national turnaround experts to address the district's legacy deficit and develop a Master Education Plan for 21st Century Teaching and Learning. In his first year as the Emergency Financial Manager of DPS he was named the Champion for Children by the Michigan Association of School Administrators, a statewide association which represents the superintendents and first-line administrators of Michigan's local and intermediate school districts. He was recognized as the Michigan Newsmaker of the Year by WXYZ-TV and along with Mayor Dave Bing as Newsmakers of the Year by Crain's Detroit Business.

Mr. Bobb is the former City Administrator and Deputy Mayor for Washington, D.C. and served as the District of Columbia's Homeland Security Advisor. He managed a workforce of approximately 20,000 employees and an annual budget of \$8 billion dollars. In November 2006 he was elected city-wide as the President of the Washington, D.C. Board of Education and served on the Washington, DC State Board of Education. Mr. Bobb also serves as a member of the Board of Directors in both the Washington, DC Chamber of Commerce, as well as, the DC Children's Youth Investment Trust Corporation. Prior to this, Mr. Bobb served as the City Manager of Oakland California and Executive Director of the Oakland Redevelopment Agency; City Manager of Richmond, Virginia; City Manager of Santa Ana, California; and City Manager of Kalamazoo, Michigan. Mr. Bobb holds the distinction of having served on a continuous basis as the longest tenured African-American City Manager/City Administrator in the Nation. He is an expert on the issues facing urban government in the realms of education, economic development, community and neighborhood development, municipal budgeting and finances, contract negotiations, public/private partnerships of sports franchises, libraries and recreation facilities, and public safety.

Mr. Bobb frequently lectures on urban issues and was the District of Columbia Government Delegate to the Second High Level Forum of World Mega Cities Development in Nantong, China in 2005 and the First High Level Forum of World Mega Cities Development in Beijing, Nantong, and Shanghai, China in 2004. He was a local government delegate at the World Summit on Sustainable Development in Johannesburg, South Africa in 2002. As a member of the U.S. Delegation to China in 1991, Mr. Bobb examined urban problems in that country.

Robert C. Bobb earned a Bachelor of Arts in Political Science from Grambling State University in Grambling, Louisiana and a Master of Science in Business from Western Michigan University in Kalamazoo, Michigan. He also completed the certificate program for Senior Executives in State and Local Governments from Harvard University's John F. Kennedy School of Government, where he served as a member of the Executive Alumni Council.

Mr. Bobb is a Fellow of the 2005 Broad Foundation Urban Schools Superintendents Academy, Founding President of the City of Oakland, California African American Chamber of Commerce, Fellow of the National Academy of Public Administration, Member of the International County Management Association, former member of the Thomas Jefferson Program in Public Policy Advisory Committee at the College of William & Mary, and former member of the Board of Visitors of the Virginia Military Institute.

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### Relevant Experience

- **Detroit Public Schools, Emergency Financial Manager, Detroit, MI. – 2009 – 2011.**
- **Public Financial Management, Director, Strategic Consulting Group, January 2008 – February 2009.**
- **District of Columbia Board of Education, President of District of Columbia Board of Education, 2007 – 2009.**
- **McFarlane Partners, Consultant, October 2006 – May 2007.**
- **Government of the District of Columbia, Deputy Mayor, City Administrator, and District Homeland Security Advisor, Washington, D.C., 2003 – 2006.**
- **City of Oakland, City Manager and Executive Director, Oakland Redevelopment Agency, Oakland, California., 1997 – 2003.**
- **City of Richmond, City Manager, Richmond, Virginia., July 1986 – November 1997**
- **City of Santa Ana, City Manager, Santa Ana, California, November 1984 – July 1986**
- **City of Kalamazoo, City Manager, Kalamazoo, Michigan, April 1976 – November 1984**
  - *Acting City Manager, 1976*
  - *Assistant City Manager, October 1974 – April 1976*
  - *Assistant Director of Public Utilities, 1972 - 1974*

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### Gubernatorial Appointments and Special Committees

- **The Detroit Public School System**  
*Appointed by the Honorable Jennifer Granholm of Michigan (2009 – 2011)*  
*Reappointed by the Honorable Rick Snider of Michigan (March 2011 – May 2011)*
- **The Virginia State Crime Commission**  
*Appointed by the Honorable Gerald L. Baliles, Governor of Virginia (1987 - 1990)*  
*Reappointed by the Honorable L. Douglas Wilder, Governor of Virginia (1990 – 1994)*  
*Reappointed by the Honorable George F. Allen, Governor of Virginia (1994 – 1997)*

- **Board of Visitors, Virginia Military Institute**  
*Appointed by the Honorable L. Douglas Wilder, Governor of Virginia (1990 – 1994)*  
*Reappointed by the Honorable George F. Allen, Governor of Virginia (1994 – 1997)*
- **The Commission on Parole Abolition and Sentencing Reform**  
*Appointed by the Honorable George F. Allen, Governor of Virginia (1994 – 1997)*
- **The Virginia Criminal Sentencing Commission**  
*Appointed by the Honorable George F. Allen, Governor of Virginia (1994 – 1997)*
- **Harvard University John F. Kennedy School of Government: Executive Session on Policing and Public Safety, 1985 - 1991.**
- **State of Michigan Legislature House and Senate Concurrent Resolution No. 645 Tribute in “Resolution of Exemplary Services as Kalamazoo City Manager”, 1984**
- **The Construction Safety Standards Committee**  
*Appointed by the Honorable William G. Milliken, Governor of Michigan (1976 – 1982)*
- **The Task Force on State Penitentiary Removal from the City of Richmond**  
*Appointed by the Honorable Gerald L. Baliles, Governor of Virginia (1987 - 1990)*
- **The Commission on Prison Overcrowding Advisory Council**  
*Appointed by the Honorable Gerald L. Baliles, Governor of Virginia (1987 - 1990)*
- **The Dillon Rule Study Commission**  
*Appointed by the Honorable L. Douglas Wilder, Governor of Virginia (1990 – 1994)*
- **The Joint Subcommittee to Study Cost-Effective Measures**  
*Appointed by the Honorable L. Douglas Wilder, Governor of Virginia (1990 – 1994)*

#### ***International and Special Delegate Experience***

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- **Member of an official team of 40 Person Observers Group Azeri Presidential Election, Baku, Azerbaijan, October 2008.**
- **RTI International, Consultant on Governance Structures, Rabat Morocco, 2008.**
- **District of Columbia Government Delegate to the First High Level Forum of the World Mega Cities Development in Beijing, Nantong, and Shanghai, China, 2004.**
- **Local government delegate to the World Summit on Sustainable Development, Johannesburg, South Africa, 2002.**
- **Selected by the National Committee on United States/China Relations for a multi-city urban management workshop in the Peoples Republic of China, 1991.**
- **Delegate from the City of Richmond to President Bill Clinton’s Summit for America’s Future, Philadelphia, Pennsylvania, 1997.**

*Media and Speeches (Recent Speeches, Testimony, Newspaper op-eds, Interviews, Panel Appearances, and Presentations)*

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- **Governing Magazine Summit on the Cost of Governing. Panelist, September 18, 2012**
- **Governing Magazine Leadership Forum. Panelist, September 6, 2012.**
- **University of Detroit, Mercy. Keynote Speaker, School of Dentistry Commencement. May 16, 2012.**
- **Harvard University Kennedy School of Government During Black Students Week, Panelist, 2012.**
- **Yale School of Management Education Leadership Conference. Panelist, March 25, 2011.**
- **Testimony before Joint House and Senate Education Subcommittee for the Michigan State Legislature. March 9, 2011.**
- **Joint House and Senate Education Subcommittee for the Michigan State Legislature. “Testimony of Robert C. Bobb: Emergency Financial Manager for the Detroit Public Schools.” February 9, 2011.**
- **“Everyone Must Commit to Help Detroit Kids Succeed.” Detroit Free Press, May 27, 2010.**
- **University of Michigan, Ann Arbor. Speaker, School of Education Commencement, May 1, 2010.**
- **Eastern Michigan University. Keynote Speaker, College of Business Ethos Week, March 19, 2010.**
- **Phi Beta Sigma. Keynote Speaker, Founders’ Day Program, January 23, 2010.**
- **University of Michigan Ann Arbor. Speaker, Institute for Social Research, January 20, 2010.**
- **“Interview: Fixing Detroit Public Schools & The ‘Cosby Effect.’” Taking Note: Thoughts on Education from John Merrow, October 20, 2009.**
- **“Cooperation Builds a Better School System.” Robert Bobb and Dave Bing. Detroit Free Press, June 21, 2009.**
- **“Current and Future Changes Promise Sound Academics, Safety.” Detroit Free Press, April 16, 2009.**
- **“Let the Voters Decide on D.C. Schools.” The Washington Post, April 3, 2007.**
- **“D.C.’s Stadium Deal: Fair or Foul?” The Washington Post, December 20, 2005.**

*Honors and Awards*

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- **The Grios.com Top 100 Most Influential People in Education, 2011**
- **Phi Beta Sigma Social Action Award, Sigma Man of the Year**
- **Inducted into the Grambling State University Hall of Fame, 2009.**
- **Life Member of the National Association for the Advancement of Colored People.**
- **Chairman of the Board District of Columbia Children Youth Investment Trust Corporation.**
- **10 Most Influential African Americans in the Bay Area Public Service Award**  
*City Flight News Magazine, January, 2003*
- **30 Years of Public Service Award**  
International City/County Management Association, 2002
- **National Public Service Award**  
Conference of Minority Public Administration, 2000
- **Neighborhood Teams Founder's Award, A Guiding Force Behind its Creation**  
City of Richmond, 1999
- **Edward A. Wayne Medal in Public Service in Urban Management and Urban Programs for Others to Follow**  
Virginia Commonwealth University, 1998
- **L.P. Cookingham Award for Career Development**  
International City Management Association, 1997
- **Marks of Excellence Award**  
National Forum for Black Public Administrators, 1997
- **The National Academy of Public Administration**  
Elected Fellow, 1995
- **Most Valuable Public Official in the Nation Award**  
City and State Newspaper, 1993 (Now Governing Magazine)
- **Innovation Award for Public Safety**  
International Management Association, 1991
- **Innovation Award for Employee Excellence**  
International City Management Association, 1990
- **Manager of the Year**  
International Management Council, Richmond Chapter, 1987 – 1988

- **Legislative House and Senate Concurrent Resolution No. 645 Tribute “Recognition of Exemplary Services” as Kalamazoo City Manager**  
State of Michigan Legislature, 1984
  - **Management Innovation Award, “Cutback Management”**  
International City Management Association, 1982
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# EXHIBIT B



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December 14, 2012

## **Expert Report of Robert C. Bobb**

### **I. Introduction**

My name is Robert Cleveland Bobb. I am the President and CEO of the Robert Bobb Group, LLC located in Washington, D.C. I have been retained by Sidley Austin LLP on behalf of Assured Guaranty Corp. and Assured Guaranty Municipal Corp. to respond to certain matters in connection with the Chapter 9 bankruptcy filing by the City of Stockton.

### **II. Summary of Opinions**

#### **A. Stockton Is in a Financial Crisis But Has Failed to Take the Appropriate Steps to Address the Crisis.**

When Stockton's financial crisis began, the City should have sought to determine where it stood financially and operationally, developed both short-term and long-term plans for addressing the financial crisis, and implemented those plans. Instead, it has lurched from crisis to crisis with no plan or strategy for solving its operational and financial predicament.

The City cannot produce reliable or timely financial information, which makes it impossible for decision makers to address the financial crisis, and the current administration should have devoted resources sooner to resolving these financial accounting and reporting issues. In fact, there is little to no evidence to support a sense of urgency to address these issues or the hard decisions facing the City.

The City has failed to make the hard budget decisions – the distinction between the core “Must Haves” and the non-core “Nice to Haves,” which would have allowed the City to eliminate or outsource non-essential services and make decisions on cost reductions and budget savings.

The City limited its actions to the traditional cost cutting trio of furloughs, layoffs, and benefit cuts. Instead, it should have engaged in creative efforts in which all options were considered, including new revenues, cost reductions, combining or eliminating programs, sharing or privatizing services, considering asset sales, and engaging in transformative change to address Stockton’s financial problems.

**B. Stockton Has Not Demonstrated It Was Cash Flow Insolvent on the Petition Date.**

Alvarez & Marsal and Nancy Zielke in her Expert Report (“Zielke Expert Report”) have developed an alternative budget model (the “Alternative Model”) that looks at additional cost reductions and revenue enhancements compared to the City’s budget. Based on my experience in addressing revenue and cost issues for financially distressed cities, the approach taken in the Alternative Model is realistic, feasible, and appropriate. With these cost reductions and additional revenues, the Alternative Model demonstrates that the City cannot make the showing that it was insolvent when it filed for chapter 9 relief at the end of June 2012.

\* \* \*

My work on this matter is being compensated at an hourly rate of \$550 per hour. These fees are not contingent on the outcome of this matter. I reserve the right to modify or amend my

conclusions in this report based on additional information that I may receive at a later date. My curriculum vitae and list of publications are set forth in Exhibit A to my attached Declaration, which is incorporated by reference herein, and the list of documents considered is attached hereto.

**III. My Background in Dealing with Distressed Cities and Difficult – Seemingly Intractable – Problems.**

In my 40 year career, I have served as the Appointed City Manager/City Administrator of the following U.S. urban cities: Kalamazoo, Michigan; Santa Ana, California; Richmond, Virginia; Oakland, California; and Washington, DC. Much of my career has involved work for cities in financial distress. I have also served as a Governor-appointed Emergency Financial Manager over a financially-strapped public school district. As a result of this work, I am an expert on the operations of urban cities and the financial, operational and policy challenges urban governments confront on a day-to-day and long-term basis.

In working on cities in financial distress, I have encountered and worked with all the constituencies that are important participants in urban government issues: city political leaders, city managers, public unions, suppliers of services to cities, colleges and universities, state and federal officials, the business community, outside experts in various disciplines, and the citizens. During my career, I have had to address many of the same urgent financial and operational issues that the City of Stockton has faced – revenue shortfalls, stagnant economic conditions, rating agency downgrades, public safety concerns, overly generous compensation practices, labor disputes, lack of institutional and financial controls, state actions that decrease or impact city

revenues or services, and independent audits which identified material weaknesses and significant deficiencies in internal controls. When faced with difficult financial decisions a City Manager is obligated to recommend and place before the City Council and the community all of the alternatives that might prevent financial insolvency. As will be discussed in this report, Stockton has simply failed to consider, let alone implement, many of the alternatives available to it in addressing its financial crisis.

**A. Work History in the Area of Crisis Management.**

Many of the matters on which I have worked have involved distressed cities. Projects involving distressed cities often involve the application of several different disciplines in addressing the city's financial or other issues. When working on matters involving distressed cities, I generally have put together a team of individuals with expertise in particular areas depending on the needs of the situation (e.g., financial accounting, both general and forensic internal audits, education policy, police and fire practices) and sought the assistance of the brightest minds available to address and resolve the city's problems. In each distressed city, the members of the team were different (although some worked on several matters with me), but they were vitally important in providing different perspectives, offering new ideas not bound by existing assumptions, preconceptions, and local politics, and pointing out areas in which new approaches could be taken. I also relied on the research and best practices of my colleagues in municipal government both nationally and internationally. Set forth below are some of the matters on behalf of distressed cities on which I have worked in my career that may have particular relevance for Stockton.

Kalamazoo, Michigan (1972-84)

When I became City Manager, the City of Kalamazoo faced significant budget challenges. My team and I, with the help of outside experts, implemented a new budget model at the time called Zero Based Budgeting (ZBB), replacing the traditional “line item budgeting” process that did not prioritize the delivery of city services. The ZBB process required that the budget be built from the ground up, rather than simply by adopting all historical expenditures, and that the first items funded in the budget were the legally mandated services. It was an effective tool to provide to directors of agencies to assist them in finding cost effective ways to improve operations. By employing ZBB, we were able early on to detect inflated budgets, eliminate obsolete programs, and identify opportunities to reduce long terms costs. The process enabled us to transform long term budget forecasting based on first funding “core legally mandated services” and when the money ran out, some services were not financed. This process forced the city to make hard choices.

The core cause of Kalamazoo’s deficits was the disproportionate funding allocated to the police and fire departments. While there was a reluctance to try and merge these two vital departments, it became evident that the expenses of those departments had to be addressed after the traditional steps of cutting city employees and unnecessary services had been unsuccessful in addressing the costs. Additionally, we felt that a fundamental structural change had to occur to address our most significant cost areas. My team and I led the successful effort to consolidate the Police and Fire Departments into a fully integrated Public Safety Agency. In so doing, we were able to address the excessive costs and increase the number of available officers available

in an emergency. This was a difficult process, as we had to overcome institutional inertia and bureaucratic resistance. With assistance from the leadership of both the police and fire unions, as well as the head of Kalamazoo's human resources group, the consolidation initiative reduced the total personnel employed by police and fire from 383 in 1982 to 287 today, and the consolidation is estimated to save the city \$9 million annually. Thirty years later, other Michigan cities have followed suit in consolidating their police and fire departments, and others are consolidating for the very same reasons -- to cut costs and add additional services. Additionally, my team and I consolidated the police and fire dispatches into a single agency, which has decreased costs annually by \$300,000 by reducing the number of dispatchers. Yet another example of structural changes to the business operations of the city that reduced costs was my participation on the study team called the CORE Council (City and Kalamazoo County) that transferred the Kalamazoo Airport from the City to the County in 1982. In this case it was determined that the City should not bear the full costs of operating an airport. Finally, my team and I increased efforts to obtain federal and state grants and reorganized Kalamazoo's city government to eliminate the Office of Management and Budget.

Oakland, California (1997-2003)

During my tenure as the City Manager in Oakland, California, the City faced many challenges that accompanied an economic upturn and subsequent decline. These economic fluctuations forced the City to develop strategies (i) to maintain a balanced budget and meet all of its financial obligations and (ii) to alter its two year budget plan.

As City Manager, my team and I sought to achieve savings by restructuring the City government with an initiative called “Banishing Bureaucracy” or “Moving Oakland Forward.” That process helped address the City’s budgetary deficits by focusing on upgrading business and customer client services within the City. My team and I met with City employees to reexamine the role of government and looked at every aspect of the City’s operations, focusing on ways to consolidate or eliminate redundant agencies, staff, and operations. We fundamentally reexamined the role of government and the best way for the City to provide services to its constituents. During this process, my team and I made over 225 recommendations to improve the City government that touched on every corner of government operations and expenses.

My approach to addressing the City’s forecasted budget deficit was rooted in the simple guiding principle that the city’s revenues must match its expenditures. This principle manifested itself in the establishment of a series of financial policies that guided the City’s fiscal future and produced balanced budgets:

- Eliminate all structural deficits.
- Balance the budget without creating a structural deficit in the General Purpose Fund.

- Use “one-time” revenues to fund “one-time expenditures.”
- Carry a minimum-fund balance within the General Purpose Fund.
- Establish a debt policy as a “best practice” to ensure that the City did not overextend itself with debt.
- Consult outside economists to validate financial assumptions used in the budget to forecast revenues.
- Develop a budget that identified the staffing and resources allocated to, as well as the revenues generated by, specific programs that support the Mayor and City Council goals.
- Expand the use of “Performance Budgeting.”
- Work closely with the City Council’s Citizen Budget Review Committee.
- Enact Broad Pension Reform Measures as part of labor contract negotiations with several unions in 2002-03 that included:
  - Increasing employee pension-fund contributions
  - Fire personnel began contributing at a 4% rate of salary (currently 13%)
  - Non-sworn personnel began contributing at 3% of salary (currently 12%)
  - Confidential management and Deputy City Attorneys began contributing at 3% of salary (currently 8%) and
  - Local 21 (International Federation of Professional and Technical Engineers) employees began contributing at 3% of salary (currently 9%).

Detroit, Michigan (2009-11)

As Emergency Financial Manager for the Detroit Public Schools (DPS), I implemented a restructuring of DPS’ operations to eliminate a \$305 million legacy deficit and ongoing structural operating deficit by cutting non-critical spending and creating a more agile, flexible

system. Ultimately, my restructuring team and I were able to produce DPS' first balanced budget without borrowing in a decade (FY2011).

Upon arrival in Detroit, my team and I were told that the DPS had a budget deficit of \$139 million. After a week's review, the restructuring team and I had determined that the actual deficit was in fact \$305 million, and there were 587 employees on the payroll who were unfunded. Contracts had been executed without appropriate budgetary approval or even knowledge.

My team and I balanced the budget by taking the following steps:

- Closed 75 schools and district facilities through a community vetting process over 2 ½ years, reducing 4.1 million square feet of underutilized space while reducing operating expenses by over \$37 million.
- Rebuilt and reformed the Public Safety operation. After terminating the Chief and Deputy Chief, my team and I established the Office of the Inspector General (OIG), which carried out roughly 400 investigations of theft, payroll fraud, contractor fraud, abuse, ethics violations, unauthorized employment, vendor fraud, and waste.
- Developed a state-approved deficit reduction plan that included a long-term financial plan.
- Conducted over 220 financial and operational audits within two years.
- Administered managed competition processes to outsource non-core school functions and improve performance. My team and I outsourced all operations not part of the core functions of "teaching and learning," including the following functions with no loss of service and dramatically lower costs for security (\$8 million annually); custodial, engineering and building maintenance (\$14.8 million annually); and bus fleet operations and maintenance (\$4.8 million). My team and I saved a total of \$68.7 million in 2011-12 as a result of outsourcing.
- Negotiated \$7.4 million in vendor payments by requiring vendors to take a 25% 'haircut' on accounts payables.

- Failed to renew over 700 non-union personnel contracts and reduced employment by 3,552 (26.5% of the total DPS workforce).
- Developed ongoing fund and budgetary reporting applications, including budget-to-actual variance reports and related management analyses and reports.
- Rigorously reviewed excess space requirements and sold or leased over 3 million square feet in two years, which generated over \$10 million in revenue and created over \$2 million in recurring revenue.
- Recovered over \$500,000 in delinquent rental payments, renegotiated a long-term lease for a 200 space DPS-owned parking garage, executed and managed 30 cell tower leases, and audited all utility bills for the district which led to over \$15 million in missed billings, incorrect rate schedules, and savings.
- Developed a downsizing strategy to reduce central office space and increase operational efficiencies through better layout of offices.
- Acquired three parks for the city totaling 40 acres, which allowed DPS to proceed with plans to reconfigure and expand three schools, develop a plan for district owned facilities to be leased to charter school operators, and structure public private partnerships.

#### Richmond, Virginia (1986-97)

As a result of budget pressures, my team and I inaugurated the “7 to 11” process in which we started at 7 AM and ended at 11 PM and called in City departments to justify their budgets, discuss alternative ways of providing services, and work on cost reductions based on detailed principles setting forth the City’s budget and service delivery priorities. The process defined the “core services” of the government and as a result several departments were merged, eliminated or consolidated. For example, my team and I

- Eliminated the position and office of the Director of Public Safety;
- Consolidated the Police & Fire dispatch functions;

- Consolidated the Parks and Public Works maintenance functions, including tree trimming; and
- Consolidated and coordinated across functions the operations of snow control.

The “7 to 11” process enabled us to engage in “outside the box” thinking and to seek creative ways to reduce costs, increase efficiency, and provide enhanced services to the citizens. In subsequent years, my team and I eliminated an \$11 million budget shortfall caused by the Virginia State government’s decision not to provide \$11 million in funding that Richmond had anticipated.

#### **IV. Stockton Has Failed to Address Its Financial Problems.**

Cities facing financial problems are nothing new, and many cities have encountered financial problems as a result of economic downturns, overspending, one-time events, and other causes. Crisis managers have developed a number of steps that are routinely applied when a city falls into financial distress. Unfortunately, a review of the record here shows that Stockton has failed to undertake those steps.

##### **A. The City Must Determine Its Current Financial Position and Take a Long Term Look at Its Economic Prospects.**

The first step for a city in financial distress is to take a hard look at its current position and short-term and long-term prospects. This involves determining the causes of its economic distress and the likely sources of revenues and costs for the foreseeable future, with a focus on the drivers of those costs and revenues. This is basically a “where are we” review, with a focus both on the present and the future. This review must be a granular and realistic rather than

summary and aspirational, and it must look at the situation as it is, and not as the city wishes it were or could be.

There is no evidence that Stockton has ever taken this approach prior to the AB 506 process. The economic problems facing Stockton were apparent in 2008; indeed, the City cites a December 2007 newspaper article highlighting the housing problems already apparent in Stockton.<sup>1</sup> That and similar news stories should have triggered a review by someone in the City's finance/budget department to sound an alarm that the City's principal revenue source – and the basis of much of the City's budgetary prosperity in prior years – was in jeopardy. When the economic recession and housing decline were in full swing in 2008-09, there is no evidence that anyone stepped back, took a look at the City's situation as a whole, and did a comprehensive review of where the City stood, what was likely to occur in the years to come, or engage in any long-term planning. The City appears to have lurched from one crisis to another, facing projected deficits of \$23 million for FY 2010-11 and \$37 million for FY 2011-12 that needed to be addressed.<sup>2</sup> As was the case with my experience in Detroit, a financial crisis cannot be resolved without a clear picture of where the city stands. Indeed, in a financial crisis, the heart and soul of what a crisis manager does is managing the city's financial resources, and a manager must have an accurate picture of revenues and expenditures to carry out that responsibility and a long-range plan for addressing the distressed city's financial problems.

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<sup>1</sup> See Ex. 56 at 5-6.

<sup>2</sup> See Ex. 51 at ¶¶ 21, 25.

Instead of conducting a comprehensive review of its situation, the City began *ad hoc* efforts to use furloughs to reduce the costs of the “unsustainable” labor contracts that the City had improvidently executed with its employees. But even this cost cutting was ineffective. In 2009, at the same time that the City was seeking to cut costs by using furloughs for the police and other city employees, it was agreeing to a 15% increase in police pay. As even the City noted, it agreed to this increase at a time when it “was in the midst of a financial crisis, and many of the City’s citizens were suffering from layoffs and reduced pay.”<sup>3</sup> The City’s *ad hoc* efforts continued, and the City has acknowledged that it abandoned long-term planning in connection with the financial crisis. In their letter to the Mayor accompanying the FY 2010-11 Comprehensive Annual Financial Report (“CAFR”), in the discussion of long-term financial planning, the City Manager and CFO stated:

“The City of Stockton has concentrated its long range financial planning on capital investments and its utility operations. Departments have been encouraged to plan beyond the annual budget process, but their plans are not a formal part of the budget process, instead they provide context for current budget proposals. *In recent years, long range planning had to give way to urgent current budget priorities as the City concentrated on dealing with falling revenues and the rising costs of its obligations to employees, retirees and bondholders.*”<sup>4</sup>

Unfortunately, that is exactly the wrong approach, and it leads, as in this case, to the short-term perspective in dealing with the current crisis, rather than stepping back and addressing the

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<sup>3</sup> Ex. 62 at 51. This was after the City had already paid increases of 36% to police between 2002 and 2008. Ex. 61 at 31.

<sup>4</sup> R. Deis & V. Burke, Introduction to Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2011, Stockton, California at xiii (emphasis added).

current crisis in the context of the long-term goals that the crisis team establishes for the distressed city. That short-term focus in part explains how Stockton has come to its current place.

One of the principal shortcomings of the current administration's short-term focus has been its failure to address more quickly Stockton's financial accounting and reporting problems. Stockton's financial recovery has been complicated by the total lack of timely and reliable financial information. Indeed, the City's entire financial reporting system has been in disarray, as exemplified by the status of the City's FY 2010-11 CAFR. Stockton's fiscal year ends on June 30, and the FY 2010-11 CAFR was finally presented to the City Council for approval on December 11, 2012. The annual CAFR is usually published approximately six months after the end of the financial year, but in this case, it took a year and a half for the auditors to complete their audit of the FY 2011 financial statements. In addition to the auditors report, the auditors identified 12 material weaknesses, 25 significant deficiencies and one other matter in the memorandum on internal controls and required communications.<sup>5</sup> Furthermore, the FY 2010-11 CAFR identified prior period adjustments of \$15.1 million relating to accounting errors, and allowances for interfund loan losses.<sup>6</sup>

The shadow of doubt over the integrity of Stockton's financial statements is so serious that the California State Controller is conducting his own separate investigation to determine the

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<sup>5</sup> 2010-11 CAFR at 647-686.

<sup>6</sup> Seeid. at 647-686.

source of the problems with Stockton's financial reporting systems. On April 2, 2012 the State Controller wrote to the City and stated that it had failed to comply with state laws regarding submittal of annual financial transaction reports for FY 2011 and that the City's FY 2009-10 reporting "raise[s] questions regarding their reliability." Based on these problems, the State Controller "concluded that there is reason to believe that the City's ability to provide reliable and accurate financial information relating to the required financial reports is questionable."<sup>7</sup> This investigation by the State Controller's Office is ongoing, and various additional investigations continue.

The true nature of the City's financial issues cannot be known until the City has reliable financial records and a system of internal controls that allow for the accounting and reporting of accurate financial information on a timely basis. Timeliness is important because decision makers can make progress in addressing a distressed city's financial problems only if they have accurate and timely information. The Government Finance Officers Association ("GFOA") has issued a best practice memorandum on timeliness that recommends that financial information should be available as soon as possible after the end of the relevant reporting period,<sup>8</sup> and in my experience, reporting packages with year-to-date overall financial performance, budget-to-actual collections and spending and fund cash balances should be available within five to ten days of the month's end. The City is not producing any of those reports on a timely basis and instead

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<sup>7</sup> Ex. 309 at 2.

<sup>8</sup> GOVERNMENT FINANCE OFFICERS ASSOCIATION, BEST PRACTICE: IMPROVING THE TIMELINESS OF FINANCIAL REPORTS (2008).

provides “periodic reports” to the City Council.<sup>9</sup> Simply put, the City’s current and historical practice does not allow City leaders to track Stockton’s financial performance or make timely and necessary decisions on how to address the financial crisis.

The City’s approach is to blame its financial problems on “prior administrations,” but its inability to issue the 2011 audited financial statements in a timely manner is the responsibility of the current administration, which came to Stockton in the spring of 2010. At that time, the City Manager clearly was aware of Stockton’s financial crisis, including the problems with its financial controls. Accordingly, upon taking office, the City Manager should have recognized that the City’s inability to present accurate financial information was a matter of highest priority and at a minimum established a task force or hired outside consultants at that time to allow the City to get to the bottom of the issue and address these problems. Instead, in the midst of its acknowledged financial crisis, the City continued with its “business as usual” approach toward the financial reporting and controls issue. That is one reason the audit took 18 months.

The result has been an ongoing disaster. Over a year after the City Manager assumed overall responsibility for the City’s financial operations, on September 12, 2011, then-City Chief Financial Officer Susan Mayer wrote a memorandum to Deputy City Manager Laurie Montes in which Ms. Mayer noted the ongoing incompetence of the existing finance operations:

“After eight months with the City, I continue to be amazed at the Department’s past failures to capture, communicate and control the City’s essential and diminishing financial resources. Financial

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<sup>9</sup> See Burke Dep. 49:11, Nov. 15, 2012.

planning and reporting failures have misrepresented the City's condition and left the City at the brink of insolvency.”<sup>10</sup>

Ms. Mayer laid out the specifics of the shortcomings of the Administrative Services Department and stated that the “depth of department challenges approach gross negligence that has built up over the past years and decades . . . Basic and essential process and controls are simply not in place.”<sup>11</sup> Among the shortcomings of the department cataloged in the memorandum were:

- the City's failure to reconcile its bank accounts,
- the City's failure to reconcile a housing portfolio of \$100 million to its general ledger since 2008, resulting in a misstatement of over \$2 million,
- the City's failure to reconcile its utility billing system to the general ledger for years,
- the City's accumulation of \$130 million in inter-fund borrowings through June 2010,
- overcommitments of the capital program in excess of \$20 million, and
- overstatement of General Fund accounts by \$4 million.<sup>12</sup>

The memorandum also notes problems with key staff losses and external audit lapses, and states that “[o]perating deficits have been papered over and overtly covered to avoid disruption to services and project delivery.”<sup>13</sup> She made clear that her group did not have the ability to

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<sup>10</sup> Ex. 163 at 1.

<sup>11</sup> Id. at 2.

<sup>12</sup> Id. at 2-3.

<sup>13</sup> Id. at 4.

produce timely and accurate financial information: “I remain challenged to cobble together the reliable financial data points necessary to support program and executive team decisions.”<sup>14</sup>

The CFO pointed out that there continued to be fundamental issues with the integrity of the City’s financial information: “We have not yet hit bottom in discovering material misstatements in the City’s financial records and the lapses in processing, substantiation, analysis, and management review that have enabled this condition.”<sup>15</sup>

Ms. Mayer’s conclusion was bleak:

“We have not yet reached bottom in our service delivery. The depth of internal control and valuation issues, coupled with outdated technology and compounded by management vacancies, continues to hold back timely reporting and the forward strategy necessary to ensure the City’s fiscal survival.”<sup>16</sup>

Two months later, on November 4, 2011, the City’s auditor Maze and Associates was writing the City that potential errors and issues with Stockton’s financial statements “raised doubts about the adequacy of procedures and the accuracy of certain balances and transactions,” finding that the deficiencies affected “bank reconciliations, investment income allocations, accounts receivable, cash collection site controls, notes and loans receivable, accounts payable, accrued compensated absences, payroll taxability, and interfund balances.”<sup>17</sup> The auditor sought to amend the audit contract as a result of these problems, stating: “In my 30 years in auditing

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<sup>14</sup> Id. at 2.

<sup>15</sup> Id. at 2.

<sup>16</sup> Id. at 12.

<sup>17</sup> Ex. 223 at 1.

local government, this is the first time I have had to request a contract amendment because of the identification of so many potential errors and issues which affect prior years.”<sup>18</sup>

These financial problems should have been addressed at an earlier stage, probably through a special task force to address the City’s financial accounting and reporting weaknesses. The City cannot make any significant strides to resolve its financial problems if its leaders do not have the financial information they need on a timely basis to move the City forward. It has now been over a year since Ms. Mayer wrote her memorandum, and the City still lacks the ability to provide budget-to-actual information on a timely basis to allow for monitoring of the City’s performance, the audit of the FY 2010-11 CAFR has only just been completed, the audit of the FY 2011-12 CAFR may not have even begun, and the State Controller has not yet concluded its review. Having been in office for over two years, the City Manager cannot pass off these critical financial accounting and reporting problems as failures of the prior administration, and the City cannot make the right decisions if it does not have accurate and timely financial information.

**B. The City Must Identify Core Services – Distinguish Between “Must Haves” and “Nice to Haves.”**

After getting a clear sense of where the distressed city stands and its financial picture, crisis managers then undertake the next step of making hard choices on budget priorities. This involves a process of distinguishing between what I call the “Must Haves” and “Nice to Haves.” In short, the distressed city has to make the hard decisions between those services that it regards

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<sup>18</sup> Id. at 2.

as core services that it must fund and other functions that may provide public benefits but that it can no longer afford.

In this case, Stockton claimed in the days prior to filing for bankruptcy that “[w]e have tried everything.”<sup>19</sup> But the record is clear that Stockton never engaged in the hard work of deciding on the City’s priorities in the provision of services -- what were “Must Have” and what were “Nice to Have” services. Similarly, Stockton never carried out any zero based budgeting or fundamental program review, where each city program is reviewed and has to be justified in terms of mission, the level of service, and the dollar amount associated with that program.<sup>20</sup> Each component of this budgeting process is a separate review and allows for determination of priorities, changes to existing practices, and determination of appropriate funding, or alternative sources for such funding. I have been involved in such reviews in Kalamazoo, Oakland, Detroit, and Richmond. They are painful processes, as difficult choices have to be made. But they are a critical process for a distressed city to undergo because the process can strip away bureaucratic budgetary control and identify **many** opportunities to cut spending, combine programs, and both improve service and save costs. Such a review is invaluable in providing a framework for making the difficult budgetary choices, comparing services across different departments and policies, and carrying out the hard decisions that are the key to addressing a distressed city’s finances.

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<sup>19</sup> Ex. 27 at 15.

<sup>20</sup> Deis Dep.60:4-61:18, Nov. 28, 2012.

A couple examples immediately arise with respect to Stockton: Should the City be in the business of subsidizing recreational facilities at a time when it is struggling to fund its police department? And what should be Stockton's role, if any, with respect to a minor league baseball team, its stadium, the Bob Hope Arena, other entertainment venues and similar facilities, and should those facilities be maintained in a manner that does not involve payment of any City funds? In FY 2011-12, the City budgeted subsidies of over \$2.4 million for entertainment venues facilities and operations, and the FY 2012-13 budget includes funding to revitalize one of its recreational facilities.<sup>21</sup> In adjustments to the FY 2012-13 budget, Stockton is proposing an additional \$55,000 on top of the existing subsidy for the certain other recreational facilities, due to decreased revenues from lower public usage. The City proposes an additional subsidy of \$225,000 for Entertainment Venues because the bookings produced less revenue than anticipated.<sup>22</sup>

These facilities are all wonderful amenities, but that is what they are – amenities, and in light of the City's financial crisis, is Stockton in the “amenities” business? These questions need to be asked with respect to every City function and operation. Those services that the City cannot function without are the “Must Haves” that Stockton should continue to fund. But those services that are “Nice to Haves” should be cut, privatized, funded in another manner, or considered for sale. Stockton has not made these hard choices, in essence defaulting to everything being a “Must Have.” Without making clear choices about “Must Haves” and “Nice

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<sup>21</sup> Ex. 238 at A6, D3; Deis Dep. 81:23-83:1.

<sup>22</sup> Burke Memorandum to Mayor and City Council, December 11, 2012, at 701.

to Haves,” the City cannot make rational budgeting and expense decisions that reflect its core priorities or what its future role should be, other than a city in continuing crisis.

One example of a “Nice to Have” is the library system, which clearly is not a core service of a city but is an amenity that provides benefits to a segment of residents. A number of jurisdictions, including Oakland, Los Angeles, Berkeley, Mendocino County, Stanislaus County, County of Solano, City of Mt. Shasta, and Fresno County, have established or are implementing special taxes to fund library services. Library services were listed favorably in recent polling carried out by Stockton earlier this year, and a tax supporting library services would allow these services to be offered based on the funds raised by the tax without impacting the General Fund.

This is the kind of analysis that should have been implemented before the City commenced the AB 506 process and needs to be considered for all services determined to be Nice to Have amenities that the City can no longer afford to provide given its current circumstances.

**C. The City Must Consider All Options, with Everything on the Table.**

**1. The City Must Abandon Old Assumptions and Think Creatively About Ways To Address Its Financial Problems.**

Along with making the hard choices on the Must Haves v. Nice to Haves, the other important step for a distressed city is to look for creative ways of addressing its financial problems. Although the consequences of a city’s financial distress are wrenching for all involved, a crisis has one benefit: it clears away the rhetoric, the outmoded ideas, great ideas of the past that time has passed by, and the shibboleths that have prevented fundamental change

over the years. In short, a financial crisis puts *everything*—and that means *everything*—on the table. A financial crisis helps make clear the alternatives and makes viable various options that are not politically possible in a “business as usual” environment. All assumptions need to be reexamined, all alternatives – raising revenue, reducing costs, and eliminating, combining, selling, or privatizing services – are available, and old ways of thinking must give way to new. This is an area in which the GFOA has done great work to help identify new ways for distressed cities to address their problems.<sup>23</sup> In my work in Kalamazoo, Oakland, Detroit, and Richmond, my teams and I engaged in creative ways of cutting costs, combining city functions, privatizing certain services, opening up city services to new suppliers, and arranging for assets to be sold to third parties. In taking these steps, we focused on devising new ways to provide services that meet the needs of the community in a cost-effective manner.

Putting all options on the table in part means considering your financial situation clearly and realistically. The City’s pension obligation to CalPERS is its largest liability, and this obligation is projected to increase 94% in the next decade, a period during which the City projects a cumulative \$100 million budget shortfall.<sup>24</sup> As part of any plan to address its financial crisis, the City must engage CalPERS about ways to reduce this looming liability. But the evidence is that Stockton studiously avoided engaging with CalPERS<sup>25</sup> and even waited until late

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<sup>23</sup> A number of recommendations by the GFOA are set forth in the Zielke Expert Report.

<sup>24</sup> Ex. 50 at 9.

<sup>25</sup> See, e.g., Haase Dep. 129.

last month to request a hardship from CalPERS,<sup>26</sup> when such a request could have been made at any time in the past. The City's failure to engage CalPERS makes clear that the City is not looking at all options in addressing its financial crisis.

Stockton also has not proposed or considered innovative or transformative plans to reduce its costs or improve its services, for example:

- It has failed to develop new “shared service” agreements with surrounding county governments, school districts, or other public or private entities to reduce costs as a result of the financial crisis.
- No priority has been given to exploring privatizing services such as code enforcement, building inspections, building maintenance, grants management, etc. These are all services that can be done less expensively through contracting with private sector companies than municipal government employees. For example, the City has over \$7 million in unpaid parking tickets. Collection of these tickets could be turned over to a private collector. Fleet management, information technology, and payroll are examples of other services that could be privatized or outsourced.
- There is a civilianization plan to expand the use of civilians for all non-sworn police functions, but we could not determine that it has been implemented.
- There was no analysis or study conducted to consider the feasibility of a four day workweek for non-safety personnel in addition to or in lieu of furlough days. In addition, overtime procedures should be reviewed to develop policies that minimize overtime costs.
- There is no evidence of the City Administration conducting any “first in class” or “best practices” research to review or implement the recommendations of the GFOA on how cities can address financial distress or explore how other cities have dealt with similar financial issues.

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<sup>26</sup> Ex. 507 at 4; Ex. 508 at 2; Ex. 510 at 2.

- There is no evidence of serious consideration to consolidate and/or eliminate entire departments such as the police and fire departments and dispatch centers.
- There is nothing “transformative” about the approach the city has taken in addressing its financial problems. They have followed the traditional route of furlough days, salary reductions, and layoffs.

It is easy to say that these alternatives would not have worked in Stockton, but that mindset is part of the problem. As noted above, in a distressed city situation, it is important to put politics aside, think about the problems differently, and put everything on the table.

Stockton has not approached its financial crisis in this manner. I will cite two examples. First, in his deposition, Chief Jones was asked if he had engaged in any “outside the box” thinking about the current issues affecting the Stockton Police Department (SPD) . As an example, he cited the “Reprioritization of Calls for Service” listing the priorities pursuant to which SPD would respond to calls as “outside the box” thinking.<sup>27</sup> But that is merely looking at the existing services the SPD is providing and saying that the SPD no longer has the resources to provide certain of those services under various circumstances.

An example of “outside the box” thinking is the proposal by the Camden, N.J. police department to merge with the county and provide police service on a countywide basis, as a way of starting a new police service that is not bound by the pay or service standards of the past.<sup>28</sup>

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<sup>27</sup> Jones Dep. 66:2-7, Nov. 7, 2012 (“Our not responding to a lot of types of calls for service is outside the box, because it upsets the community, it upsets our own staff. They are not able to even investigate or respond to certain types of calls, usually the less priority ones, asking everyone to do it online instead.”). See also Ex. 86 (SPD Reprioritization of Calls for Service).

<sup>28</sup> See Ex. 384; Ex. 385.

Interestingly, the City of San Bernardino is considering a plan to put out an RFP to outsource its police services.<sup>29</sup> Chief Jones testified that there were discussions with San Joaquin County about possible coordination efforts, but “a multitude” of problems were cited, such as different policies and procedures, the use of different radio frequencies, the logistics of 911 dispatching, jurisdictional and command structure issues, the County’s own resource shortfalls, and the transactional costs of the project. Consequently, the effort led nowhere.<sup>30</sup> The existence of such problems are standard bureaucratic reasons for not taking action, but viewing this issue from a different perspective – that of homeland security – and the need for first responders in neighboring jurisdictions to be able to communicate in the event of a natural disaster or terror event can make available other resources and offer the prospect of making coordination a reality, and not just an exercise in developing reasons not to act.

**2. The City Must Redress Its Overgenerous Wages and Benefits of the Past and Abandon the Comparable City Analysis That Leads to Overpayment.**

The City’s approach to the compensation of its public employees reflects a similar lack of vision that basically assures that the City will continue to overpay its employees. The overly generous wages and benefits paid by Stockton are the most significant financial problems facing the City. Personnel costs have amounted to more than 70% of the Stockton’s budget cost, and the overly generous wage and benefit payments have strained the City’s ability to deliver essential services. It is simple math that \$10 million in Stockton funds will allow Stockton to put

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<sup>29</sup> Joe Nelson, *San Bernardino to Solicit Sheriff’s Department Proposal for Policing*, San Bernardino County Sun, Nov. 1, 2012.

<sup>30</sup> Ex. 188 at 11-13; Jones Dep. 72:7-9.

40 police officers on patrol if the all-in cost of each officer is \$250,000 or 50 officers on patrol if the all-in cost per officer is \$200,000, a 25% difference. To the extent that Stockton has been paying overly high wages and benefits, as the City concedes, the quality of services has suffered because it has not had the benefit of the additional manpower that lower and more appropriate wages and benefits would have enabled.

Stockton's own documents highlight that the City entered into "unsustainable" labor contracts with its various unions.<sup>31</sup> In addition, the City has conceded that the wage and benefit packages were determined by salary comparisons with other cities that had "little or marginal relevance to Stockton" or were based on "irrational comparisons" to the City.<sup>32</sup> Indeed, the entire "salary comparison" process for setting wages and benefits has been used by labor unions in California to "ratchet up" wage and benefit levels throughout the state for the past two decades. The practice is widespread and well known, and I have participated in a number of negotiations in which it has occurred: a union would secure a concession for its members on a wage, benefit, or "additional payment" from one jurisdiction, and then unions in other cities in the region would cite that concession as something that had to be adopted in their contract in order for the city to remain "competitive" with the other jurisdiction. This inevitably made the concept of "me too" become the norm rather than the exception. With frequent contract negotiations between unions and local jurisdictions, there were many opportunities to obtain concessions from different jurisdictions and then leverage those concessions in negotiations with

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<sup>31</sup> See Ex. 410 at ¶ 2; see also Ex. 61 at 31 ("current contractual obligations are fiscally unsustainable").

<sup>32</sup> See, for example, Ex. 62 at 9.

other cities. Through the use of the “salary comparison” mechanism, these concessions would then be adopted by other jurisdictions, and then be included in the higher baseline for the next set of negotiations, where the process would begin again with new concessions being sought, obtained, and then serving as the basis for another round of “ratcheting up.”

Although the “comparative city” approach certainly contributed to the high level of Stockton’s compensation levels, Stockton’s wages and benefits have exceeded even the compensation levels found in other jurisdictions. Stockton has admitted that it did not pay attention to the total compensation paid to its employees until 2010/2011,<sup>33</sup> and that may explain how the City’s wages and benefits somehow became substantially higher than even the inflated compensation levels paid to California public employees who benefited from their union’s aggressive “ratcheting up” campaign. Even if the City is correct that the wage and benefit levels have been reduced to be roughly comparable to those paid by other cities, that still does not address the underlying overpayments spawned by the “ratcheting up” process that has led to overcompensation of many California public employees.

City Manager Deis is continuing to rely on the comparative city analysis, claiming that Stockton must pay “competitive” wages and benefits to attract and retain talent. In a letter to Governor Brown dated August 15, 2012, City Manager Deis stated that Stockton could not afford to reduce its pension obligations unilaterally because that would put it at a competitive disadvantage compared to other cities, and he attached a memorandum from Chief Jones

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<sup>33</sup> Ex. 74 at 15.

claiming there would be a “mass exodus” of police officers if pensions were cut.<sup>34</sup> Stockton is continuing to use “competitiveness” as its framework for compensation decisions and clinging to the “comparable city” framework that got it into its current problems. It is surprising that City Manager Deis, who is critical of the “poor decisions made by previous City leaders,” now makes the exact same mistake his predecessors did with respect to the largest cost driver in the City’s budget. He claims that the City must remain “competitive” with other cities, and how does he propose to measure “competitiveness” -- using the same “comparable city” analysis that drove Stockton over the cliff in the first place in its negotiations with unions, perhaps with different cities, but eventually to the same effect. He wants Stockton to keep pace with the same inflated wages being paid by other California cities using the “comparable city” analysis that lets the unions continue to “ratchet up” wages and benefits as they have done for the past couple decades.

As noted above, with a crisis, all assumptions must be open to being rethought. City Manager Deis stated during his deposition that his views on “competitiveness” are based on his 30-plus years of experience.<sup>35</sup> Instead of simply following this experience and adopting the “competitiveness” mantra with its one-way escalator to paying higher wages, City Manager Deis should have been looking at other ways for Stockton to address its compensation issues, to abandon the “competitiveness” standard that is the delight of the public employee unions. For the majority of City workers, including most non-safety jobs, and excluding department heads and

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<sup>34</sup> Ex. 109 at 1, 4.

<sup>35</sup> Deis Dep. 168:8-11.

other specialized positions, City Manager Deis and Stockton should abandon the “comparative city” analysis and look at the competitive employment situation in Stockton in establishing compensation for its workers. What is the relevance of what clerks get paid in other California cities to the City’s interest in hiring someone to a clerk position in Stockton? Stockton will be able to hire talented people based on market conditions in Stockton and need not be concerned about pay in other cities that do not reflect Stockton’s market conditions.

**D. The City Has Not Addressed its Problems and Instead Filed for Bankruptcy.**

The City has not followed the steps cities in crisis should and typically do take, which are outlined in this report. Instead, the City has worked to reduce the “unsustainable” labor contracts that resulted in excessive overpayments to city workers for over a decade, and having taken away the worst of the excesses, now claims that city employees and service recipients have “borne the entire brunt of our restructuring efforts so far” and that “now its time for others” to contribute to resolving Stockton’s problems.<sup>36</sup> As a crisis manager, in a distressed city context, getting a group to surrender unearned economic benefits does not constitute “suffering”; it is more properly called a “first step.”

Perhaps the City leaders believe that they have had to work hard to achieve the employee cutbacks, and perhaps they do not want to continue to engage the public unions further on wage and benefit issues. This will lead to escalating wage and benefit costs in the years to come in future contract negotiations. The fundamental problem with the City’s approach is the failure by past and current City administrators to take the long term view and develop an overall plan for

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<sup>36</sup> Ex. 68 at 3.

addressing its long-term fiscal problems, and the difficulty in obtaining concessions is the result of its *ad hoc* approach.

V. **The Alternative Model Prepared by Alvarez & Marsal Shows the Steps that the City Should Have and Still Should Take to Address Its Financial Problems.**

Because the City has failed to take the steps that it should have considered in response to its economic situation, Nancy Zielke of Alvarez & Marsal and I have undertaken that project.

The remainder of this declaration, read in conjunction with the Zielke Expert Report, makes the difficult choices that the City has failed to consider and sets out the steps that Stockton should have taken prior to filing for bankruptcy relief. If these steps had been taken as set forth in the Alternative Model, the City could have balanced its budget for the fiscal year beginning July 1, 2012. At pages 33 to 57 of her expert report, Ms. Zielke has presented the Alternative Model, which lists the changes to the City's FY 2012-13 baseline budget, along with the resulting numbers and their financial consequences. Based on my experience as a crisis manager, the choices reflected in the Alternative Model are realistic, feasible, and appropriate, and the kinds of steps that Stockton should have implemented and that have been implemented by other jurisdictions to address their financial problems.

At the outset, I readily concede that this Alternative Model makes painful, and unpopular, choices. But that is what is necessary in a financial crisis, and that is what the City's leaders have failed to do.

**A. The Alternative Model Has Revenue Raising and Cost Cutting Components.**

The Alternative Model has two components. It first lists additional revenues that the City should have considered and implemented in conjunction, in certain instances, with voter referenda on the proposals and advocacy on the part of Stockton's elected leadership to rally constituents to support the ballot measures for the good of the City. After consideration of additional revenues, the Alternative Model then lists reductions in expenses, reflecting choices between "Must Haves" and "Nice to Haves" that City leaders have again failed to make.

**1. Additional Revenues**

Any consideration of how to address Stockton's financial problems must include consideration of additional revenue sources. Indeed, it is difficult to believe that the City has not taken steps to try to increase revenue through additional tax revenues and user fees and has instead indicated that Stockton's citizens should not be asked to contribute to resolution of the City's financial crisis. Under California law, any increase in taxes has to be approved by its citizens, and the City so far has taken almost no steps to make it possible to implement new taxes. The City has sponsored two separate opinion surveys – one in 2010 and one earlier this year in 2012<sup>37</sup> – but no other steps have been taken, and indeed, statements by the City Manager to citizens and to the City Council have indicated that taxes should not be increased at this time. In his February 28, 2008 memorandum to the Mayor and City Council, City Manager Deis stated that Stockton's citizens should not be asked to contribute to resolving the financial crisis at this time:

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<sup>37</sup> See Ex. 106 and Ex. 214.

“Another option would be to ask for tax increases. Even if the voters would approve such a proposal, we just don’t think they should be asked to fix this problem, at least until we explore other alternatives, address our liquidation exposure and get our house in order.”<sup>38</sup>

The City Manager should not have been making such judgments on taxes at that time. As an initial matter, in a financial crisis, the distressed city should be looking to increase its options, not reduce them. More importantly, the mix of policies to address Stockton’s financial crisis should be decided by Stockton’s political leaders, the Mayor and City Council, and City Manager Deis should be presenting the alternatives to the Mayor and the City Council and allow the politically elected City Council members to make the determination of the role, if any, of taxes in any resolution of Stockton’s financial crisis. For this reason, the City Manager should have carried forward with the surveys the City conducted in both 2010 and 2012 by bringing all alternatives to the City Council, which should have debated and ultimately decided the tax issues and any other steps to be taken. With sound fiscal and operational management, the City Manager can advocate for a tax increase, and as City Manager Deis stated, “fix the problem” at the same time.

a. **Local Retail Sales Tax Increase of 0.5 Percent [Page 36 of Zielke Expert Report]**

The Alternative Model suggests that the City could have and should have sought to raise local sales taxes by 0.5 percent. This small increase in the sales tax would provide significant revenue, close to \$18-19 million annually. For FY 2012-13, a portion of that amount (\$4.5

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<sup>38</sup> Ex. 68 at 3.

million) could be collected. The sales tax increase would provide funds on an annual basis representing a good portion of the shortfall all by itself, and it demonstrates the importance of additional revenue as a means of addressing Stockton's financial problems. This provision requires voter approval, but it is an issue on which Stockton's elected officials need to provide leadership and show the citizens that the City is addressing its problems by both raising new revenue and cutting employee wages and benefits and looking closely at the city services that can be cut while preserving public safety and with, creative thinking, providing services in more cost efficient ways.

A number of California jurisdictions recently voted in favor of sales tax increases. News reports indicate that 48 of 60 general tax increases sought by California cities were approved in the November 2012 elections, and in total 171 of 240 local revenue measures passed in the November elections,<sup>39</sup> a sign that the public is receptive to approving tax increases, particularly if they are tied to preservation of services.

**b. 2.00% increase in Utility User Tax [Pages 37-38 of Zielke Expert Report]**

The Alternative Model also contemplates a 2% increase in Stockton's utility user tax rate. This increase would raise the Utility User Tax, which is an amount individuals pay on their utility bills, from 6.00% to 8.00%. As with the sales tax increase, the amount to be raised by this increase would be significant – approximately \$10 million per year, \$2.5 million of which could

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<sup>39</sup> Tod Newcombe, *Tired of Service Cuts, California Cities Raise Taxes*, GOVERNING, Nov 21, 2012, [http://www.governing.com/templates/gov\\_print\\_article?id=180367291](http://www.governing.com/templates/gov_print_article?id=180367291).

be collected during FY 2012-13. As in the case of the sales tax increase, this proposal would also require voter approval. It is another means by which the City can obtain a significant source of revenue with relatively little disruption to city residents. Indeed, this is a tax already paid by Stockton residents, and from 1969 until 2008, the rate paid was 8.00%, at which time the rate was lowered to 6.00%. City officials could use the fact that citizens had been paying the 8.00% rate for 30 years to persuade citizens to vote for the restoration of that rate.

**c. Transient Occupancy Tax [Page 38 of Zielke Expert Report]**

Many California localities charge a transient occupancy tax on tourists and those using hotels, tourism, and related services. The proposed increase in this tax would require voter approval, but it is a tax that has already been approved by voters at the current rate of 8% rate, and an increase to 10%, which is the level charged by a number of nearby cities, would bring in an additional \$452,000 annually. It is also a tax that generally does not affect the residents but rather visitors, and for that reason, it often receives approval.

**d. Parcel Tax [Page 39 of Zielke Expert Report]**

Some California jurisdictions have imposed a tax on parcels of land on a fixed rate basis rather than the parcel's assessed value. Such impositions require voter approval, but the parcel tax is not subject to the property tax limitations of Proposition 13, as the tax is not based on the assessed value of the property. Vallejo has established a parcel tax of \$48/parcel, Oakland imposes a \$80/parcel tax, and Davis levies a parcel tax of \$49/parcel. A proposed \$48/parcel tax would raise \$3.9 million. To garner support, this tax could be targeted for library support, as previously discussed, and public safety needs.

e. **Emergency Service Cost Recovery Fees [Pages 39-40 of Zielke Expert Report]**

The Alternative Model also suggests an emergency service cost recovery, consisting of a fee paid by insurers to reimburse Stockton for the cost incurred for City employees to respond to emergency calls. The City currently seeks to collect reimbursement from insurers in connection with vehicle fires, and under the proposed measure, the City would seek reimbursement for various other emergency response services, such as medical emergencies, pipeline incidents, special rescues, and hazardous material cleanup. Thus, if EMS responds to a citizen's call, then the cost of that service would be billed to that individual's insurer for reimbursement. It is projected that this proposal could raise approximately \$1.6 million annually after full implementation. This is not a revenue enhancement matter, as it is merely recovering the cost of providing the emergency service. This program does not require voter approval, and it could be implemented by City Council action. These costs are currently being recovered by a number of California cities, including Oakland, Sacramento, San Bernardino, Upland, and Pinole.

f. **Other Revenue Opportunities Not Included in Alternative Model**

The following are revenue opportunities that could provide additional funds for the City's General Fund but have not been associated with specific revenue amounts in the Alternative Model. These opportunities include a 911 fee, federal, state, and corporate grants, the sale or privatization of City assets and properties, and a countywide library tax.

(i) **911 Fee [Page 40 of Zielke Expert Report]**

The 911 fee proposed in the Alternative Model is designed to reimburse the City for the provision of 911 services. In 2004, Stockton put in place a 911 fee of \$1.50 per month to be paid in connection with monthly local telephone charges, but then abandoned it in the face of a legal challenge claiming that the 911 fee was a tax that required voter approval. A dozen California jurisdictions impose the 911 fee, with San Francisco being the largest city to have established the fee in 2008. It can be supported as a measure that will raise money to help defray the cost of a life-saving service for citizens.

(ii) **Available Direct State & Federal Grants and Corporate Opportunities [Page 41 of Zielke Expert Report]**

There are a number of federal and state grants and corporate that appear to be available to Stockton that the City is not currently pursuing. No dollar amount is associated with this recommendation, but it is an opportunity for a cash-strapped city to get financial assistance.

Stockton does receive grant money from federal and state programs, but it has not pursued a number of federal discretionary grants including the Assistance to Firefighters or a Staffing for Adequate Fire & Emergency Response (SAFER) grants. Similarly, there are California state grants relating to transportation planning, law enforcement, special education and workforce training that could be available to Stockton. For a city in financial distress, these are great opportunities to take advantage of third party funding that can provide either temporary funding or long-term assistance. Some Stockton documents express concern about chasing grant

money that contains too many restrictions,<sup>40</sup> but the various opportunities for additional funds should not be ignored.

There are also opportunities for corporate gifts, naming rights, or sponsorship of programs that can provide sources of revenue for the City. Corporations will often act as sponsors for events, and have been particularly active in the promotion of the arts, either through grants or association with the event. This is a great source of funding to assist with arts programs that can no longer be subsidized from the General Fund. There are also naming rights opportunities, as a company will pay for the right to have its name associated with a popular landmark or property. Companies may also be willing to provide services to the City (e.g., maintaining a park near a corporate facility).

(iii) **Privatization or Sale of City Assets and Abandoned Properties [Pages 42-43 of Zielke Expert Report]**

The City has failed to do any serious review of its assets for sale or privatization. In its Chapter 9 filing, the City included the declaration of Michael Locke, who was in charge of the review of the City's surplus property.<sup>41</sup> The Locke declaration includes an Exhibit listing the properties that the City was considering selling, but these properties were almost all surplus sites and parcels of land no longer needed by the City.<sup>42</sup> The Locke Exhibit did not include a number of the principal assets owned by the City, including items such as the Marina, the Bob Hope

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<sup>40</sup> See, e.g., Ex. 186 and Ex. 200.

<sup>41</sup> See Ex. 47.

<sup>42</sup> See Ex. 48.

Theatre, the Stockton Events Center, the municipally-owned Golf Courses, the City's Water, Wastewater, and Storm Water Utility systems, and other City assets listed at pages 42-43 of the Zielke Expert Report.<sup>43</sup>

Review of a city's assets and properties should be part of the initial review of a City's financial position. In connection with that initial review, the City should have engaged professionals early on to determine the potential value of such assets, including those listed on pages 42-43 of the Zielke Expert Report. The City should have made the "Must Have" versus "Nice to Have" decisions with respect to each of these assets, and then decided whether to retain, sell, or make other arrangements for each of those assets. As noted previously, the City never engaged in that analysis at any time. I believe the result of such a review would have been the determination that most of these assets were not core assets and should have been sold or otherwise addressed so that the City did not have any ongoing financial responsibility for them. Any sale would have brought in revenue on a one-time basis, reduced annual expenditures by the amount of any subsidy payment, and perhaps increased revenues from tax payments.

In his November 8, 2012 deposition, Mr. Locke stated that the City had recently engaged CB Richard Ellis to review possible sales of the properties listed on the Locke Exhibit.<sup>44</sup> This is a day late and a dollar short, as noted above. Having said that, even at this stage, if CB Richard Ellis is doing a study of all the City's assets and the City is reviewing these assets on a "Must

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<sup>43</sup> See Ex. 48.

<sup>44</sup> Locke Dep. 48:4, Nov. 8, 2012.

Have/Nice to Have” basis, that would be a useful exercise, if it led to the sale or other disposition of non-core assets.

As in the case of the 911 fee and federal and state grants, and corporate gifts or sponsorship, we do not establish a dollar figure with respect to the sale of assets, but there could be substantial recoveries and expense reduction from the sale of non-core assets.

(iv) **Countywide Sales Tax for Library Services [Page 43 of Zielke Expert Report]**

As discussed above (p. 22), a number of jurisdictions have established sales and use taxes for public library services. Libraries are not a core service but an amenity popular with citizens that can be funded with a special tax approved by the voters. San Joaquin County could establish such a tax with voter approval as a way of funding library services without drawing on the General Fund.

With appropriate voter education and the involvement of the City’s political leadership, all the foregoing revenue enhancements could receive voter approval and do much to spark Stockton’s recovery. Each of the items is a common revenue raising option that already exists or existed in Stockton (e.g., the Retail Sales tax, the Utility User tax, the Transient Occupancy tax, the 911 fee) or can be targeted in a way that improves the likelihood of voter approval (e.g., the Parcel Tax for library services/public safety needs). The important point is that the City Manager and the City’s political leaders must provide leadership on this issue, leadership that to this point has not existed.

2. **Cost Reductions**

In addition to revenue enhancements, we have also identified additional specific spending reductions that will not affect essential services or impact the City's legal obligations. As set forth in detail in the Zielke Expert Report, we believe \$24.4 million in reductions is available for FY 2012-13, with an additional \$1.3 million in reductions for FY 2013-14, and a further \$10.4 million in reductions for FY 2014-15.

a. **Department Budget Reductions [Pages 45-50 of Zielke Expert Report]**

The proposed department budget reductions relate to additional cuts that can be taken in the budgets of the non-safety departments. We have made no cuts to the police and fire departments, reflecting their core public safety role. In general, the Alternative Model proposes that non-safety departments target reductions of 15% from their prior year budget levels. In addition, reductions will be made in the general fund support for various community services, as well as reductions in the general fund subsidy for Entertainment Venues, based on their "Must Have/Nice to Have" status.

As part of prior year budget presentations, department heads were directed to propose specified levels of cuts, including the 5%-10%-15% proposals in connection with the FY 2012-13 budget, but were never provided any guidance as to the priorities and budget goals to be achieved. The departments responded with proposed cuts, but then the cuts were rejected by the City Manager and never adopted by the City Council. Having engaged in zero based budgeting and similar processes and knowing of their benefits, it is my strong view that any request to

make spending reductions should include guidelines to be used in determining the nature and level of such reductions. In the absence of any guidance, the tendency is to make the largest cuts to the most popular programs with the greatest public or third-party support and then rely on those adversely affected by the spending reductions to argue for their restoration. To be effective, the guidance for any spending reduction decisions should be accompanied by participation of both the department personnel running the programs and members of the finance department championing the spending reductions. The review should examine each program in the department and determine whether each program is an essential (“Must Have”) or non-essential (“Nice to Have”) program, whether the program’s goals can be met in combination or consolidation with other programs, whether that program can be privatized or otherwise shifted in whole or in part to, or funded by, the private sector at lower cost, and whether the program should be eliminated or delivered in another manner through other resources. As noted above, this process leads to a comparative analysis of programs and allows for better judgments about department priorities and those “Must Have” programs that require financial support. With these parameters in place, in my experience, the 15% reductions are definitely achievable.

On the various cultural proposals, the proposed reductions include elimination of General Fund amounts for “Nice to Have” programs such as the library, the Arts Commission, recreation, municipal recreational facilities, and the entertainment venues. Simply put, these are not core services, and there are alternative ways to fund certain of these programs through targeted taxes (e.g., the parcel tax to be used for library services), grants, and private donations. The City has

argued that the library is necessary to help with the low reading levels of Stockton students,<sup>45</sup> but the schools, and not the libraries, should carry out that essential service. The entertainment venues should be funded with monies from events held at those venues and should not be subsidized by the City. Simply put, the City should not be subsidizing such programs in the face of significant “Must Have” public safety needs.

**b. Restructuring of Employee Personnel and Benefits [Pages 50-53 of Zielke Expert Report]**

The Alternative Model calls for various healthcare, vacancy savings and new labor agreement changes that amount to approximately \$12.0 million per year.

On healthcare, the reductions seek modest increases in the contributions by current employees and introduce a mechanism to begin to address any unfunded liability for the retiree health care benefits. The 25% contribution for healthcare by retirees contemplated by the Alternative Model is reasonable and leaves in place a program that remains more generous than almost any other similar program offered by a California city. Health care costs have been an ongoing issue in most jurisdictions in which I have worked, and these are reasonable actions in an area in which costs have been rising substantially over the years, and parties have come to expect that they must bear higher health care costs.

The reductions relating to the vacancy rate reflect the calculation of the projected number of authorized positions that the City has not filled for safety and miscellaneous personnel.

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<sup>45</sup> Ex. 51 at ¶ 31; Montes Dep. 159:1-7, Nov. 1, 2012.

On the issue of the new labor cost reductions, the reductions included in the final approved City budget have been included in the Alternative Model. A number of agreements were reached with unions in the course of the AB 506 process, even if some of the agreements were not finalized until after the conclusion of that process.<sup>46</sup>

The City filed a hardship request with CalPERS on December 4, 2012. If the hardship request is granted for FY 2012-13, the savings would be approximately \$1.25 million, with three year savings through FY 2014-15 of approximately \$4.5 million.

c. **Revised Contract Payments and Loan Debt [Pages 54-55 of Zielke Expert Report]**

The reduction of \$732,000 relates to debt on the marina, which is a “Nice to Have” facility but is in no way related to core services. The City is not legally obligated to make the marina debt service payment, as the debt was not approved by the City Council and citizens. In addition, the subsidy to maintain the marina should similarly be eliminated, and efforts to have a third party assume responsibility should be explored.

d. **Reduced Reinstated Fiscal Stability Measures [Page 55 of Zielke Expert Report]**

The reductions relating to the reinstated fiscal stability measures are all appropriate and reasonable actions to be taken by a distressed city.

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<sup>46</sup> See, e.g., Goodrich Dep. 37:9-12, 40:21-25, 41:6-11, 41:18-22, Nov. 6, 2012.

e. **Consolidation or Privatization of Services [Page 55-56 of Zielke Expert Report]**

The consolidation of the police and fire dispatch has been implemented in a number of jurisdictions and would allow the City to save a half million dollars. On a first principles basis, the police and fire dispatch would be offered on a consolidated basis, and the City's financial crisis is the spur that can overcome any bureaucratic opposition from the police and fire departments. As noted above (pp. 25-26), the consolidation of various networks onto a single standard also addresses homeland security concerns with communications among first responders. My team and I carried out this consolidation of police and fire dispatch in Kalamazoo, and it was successful in knitting together the police and fire communications networks, an advantage for both entities and for Kalamazoo's citizens.

VI. **Conclusion**

The changes proposed by the Alternative Model represent a painful, but appropriate, way of addressing Stockton's financial crisis. The additional revenue measures are largely familiar to Stockton voters and should receive the support of the people in conjunction with the City's efforts to reduce expenses, and the cost reductions are the types of savings that Stockton could achieve if it carried out the type of distressed city reviews that involve separation of the "Must Haves" from the "Nice to Haves" and the appropriate treatment of such programs in accordance with the core/non-core determinations. Creative thinking about the delivery of services, rather than continuation of the present bureaucracy, will also allow Stockton to cut and combine programs, upgrade services even in an era of reduced financial flexibility, and avoid the need for bankruptcy. As the Alternative Model makes clear, the additional revenue and cost reductions

are there for Stockton to implement to avoid insolvency; all the City needs is the political will to implement them.

DOCUMENTS CONSIDERED

- 10 Year General Fund Budget Forecast Model City Proposed Budget (Confidential – Website)
- City of Oakland 2003 CAFR
- City of Oakland Adopted Policy Budget, 1999-01
- City of Oakland Adopted Policy Budget, 2001-03
- *Cooperation, Collaboration and Consolidation of Services Plan*, City of Kalamazoo, <http://www.kalamazoocity.org/docs/econdev/evip-kalamazoocity.pdf>
- *County of Solano Library Tax Extension, Measure L (June 2012)*, Ballotpedia [http://ballotpedia.org/wiki/index.php/County\\_of\\_Solano\\_Library\\_Tax\\_Extension,\\_Measure\\_L\\_\(June\\_2012\)](http://ballotpedia.org/wiki/index.php/County_of_Solano_Library_Tax_Extension,_Measure_L_(June_2012))
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- *Facts about Measure B*, Fresno County Public Library, <http://www.fresnolibrary.org/measureb.html>
- Government Accounting Standards Board, Statement No. 45 (2004) (Non-Confidential – Public Website)
- Government Finance Officers Association
  - Fiscal First Aid Best Practices
  - National Association of State and Local Government Budgeting Report
  - Recommended Best Practices in Timeliness in Financial Reporting
- *Library Sales Tax — Effective October 1, 2011*, City of Mt. Shasta, <http://ci.mt-shasta.ca.us/salestax1011.php>
- Listing of All Stockton Assets, 2010 to present (Confidential – Website)
- Management Partners Report, Feb. 28, 2012 (Non-Confidential – Public Website)
- Stockton Mediation Presentation, April 30, 2012 (Confidential – Website)
- Memorandum, V. Burke to Mayor and City Council, Dec. 11, 2012
- *Mendocino County Sales Tax to Support Libraries, Measure A (November 2011)*, Ballotpedia [http://ballotpedia.org/wiki/index.php/Mendocino\\_County\\_Sales\\_Tax\\_to\\_Support\\_Libraries,\\_Measure\\_A\\_\(November\\_2011\)](http://ballotpedia.org/wiki/index.php/Mendocino_County_Sales_Tax_to_Support_Libraries,_Measure_A_(November_2011))
- Joe Nelson, *San Bernardino to Solicit Sheriff's Department Proposal for Policing*, San Bernardino County Sun, Nov. 1, 2012

- Tod Newcombe, *Tired of Service Cuts, California Cities Raise Taxes*, Governing, Nov. 26, 2012, [http://www.governing.com/templates/gov\\_print\\_article?id=180367291](http://www.governing.com/templates/gov_print_article?id=180367291)
- Revenue from Retirees on Stockton Healthcare Plan, Fiscal Year 2008-09 (Non-Confidential – Public Website)
- Revenue from Retirees on Stockton Healthcare Plan, Fiscal Year 2010-11 (Non-Confidential – Public Website)
- *Santa Cruz County Library Tax Measure R (June 2008)*, Ballotpedia [http://ballotpedia.org/wiki/index.php/Santa\\_Cruz\\_County\\_Library\\_Tax\\_Measure\\_R\\_\(June\\_2008\)](http://ballotpedia.org/wiki/index.php/Santa_Cruz_County_Library_Tax_Measure_R_(June_2008))
- Stanford CalPERS Report (Non-Confidential – Public Website)
- Stockton 2007-08 CAFR (Non-Confidential – Public Website)
- Stockton 2008-09 CAFR (Non-Confidential – Public Website)
- Stockton 2009-10 CAFR (Non-Confidential – Public Website)
- Stockton 2010-11 CAFR (MSRB – Public)
  - Robert Deis & Vanessa Burke, Introduction to 2010-11 CAFR
  - Stockton 2010-11 CAFR, List of All Funds (Confidential – Website)
- Stockton AB 506 Proposals, May 7, 2012 (Confidential – Website)
- Stockton Annual Budget, 2009-10 (Non-Confidential – Public Website)
- Stockton Annual Budget, 2010-11 (Non-Confidential – Public Website)
- Stockton Annual Budget, 2011-12 (Non-Confidential – Public Website)
- Stockton Annual Budget, 2012-13 (Non-Confidential – Public Website)
- Stockton Bloomberg Financial (Non-Confidential – Public Website)
- Stockton Budget Projection, April 23, 2012 (Confidential – Website)
- Stockton Budget Update, Aug. 23, 2011 Council Meeting, Agenda Item 15.04 (Non-Confidential – Public Website)
  - Budget Update, Aug. 23, 2011 Council Meeting, Agenda Item 15.04: PowerPoint Presentation (Non-Confidential – Public Website)
  - Budget Update, Aug. 23, 2011 Council Meeting, Agenda Item 15.04: Resolution (Non-Confidential – Public Website)
- Stockton Budget Update, Oct. 18, 2011 Council Meeting, Agenda Item 15.01 (Non-Confidential – Public Website)
  - Budget Update, Oct. 18, 2011 Council Meeting, Agenda Item 15.01: PowerPoint Presentation (Non-Confidential – Public Website)
  - Budget Update, Oct. 18, 2011 Council Meeting, Agenda Item 15.01: Resolution (Non-Confidential – Public Website)
- Stockton CalPERS Contracts Original (Non-Confidential – Public Website)

- Stockton City Auditor (Non-Confidential – Public Website)
- Stockton City Council Fiscal Update, Feb. 28, 2012 (Non Confidential – Public Website)
- Stockton General Fund Combined Comparative Financial Statement, 2010 (Confidential – Website)
- Stockton General Fund Transfer History, 2010-11 (Confidential – Website)
- Stockton Issuer Rating (Non-Confidential – Public Website)
- Stockton Pendency Plan, June 26, 2012 (Non-Confidential – Public Website)
- Stockton POB Official Statement (Non-Confidential – Public Website)
- Stockton Preliminary Financial Condition Assessment (Non-Confidential – Public Website)
- Stockton Reserve Policies
  - <http://www.stockton.com/CityCouncil/CouncilPolicies/500-2.pdf>
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  - <http://www.stockton.com/CityCouncil/CouncilPolicies/700-5.pdf>
- Stockton Sales Tax Major Budget Revenues Projections, Mid Year FY 2011-12 through September (Confidential – Website)
- Stockton Statement of Expenditures and Encumbrances by Fund (Confidential – Website)
- Stockton User Utility Tax Projections (Confidential – Website)
- Stockton Vacancy Report, April 2012 (Confidential – Website)

#### Depositions

- Deposition of David Millican, October 31, 2012
- Deposition of Laurie Montes, November 1, 2012
- Deposition of Ann Goodrich, November 6, 2012
- Deposition of Eric Jones, November 7, 2012
- Deposition of Michael Locke, November 8, 2012
- Deposition of Katherine Miller, November 9, 2012
- Deposition of Teresia Haase, November 14, 2012
- Deposition of Vanessa Burke, November 15, 2012
- Deposition of Robert Deis, November 28, 2012

Exhibits

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