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 City of Stockton  
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9 UNITED STATES BANKRUPTCY COURT  
 10 EASTERN DISTRICT OF CALIFORNIA  
 11 SACRAMENTO DIVISION  
 12

13 In re:  
 14 CITY OF STOCKTON, CALIFORNIA,  
 15 Debtor.

Case No. 2012-32118  
 D.C. No. OHS-15  
 Chapter 9

16 WELLS FARGO BANK, NATIONAL  
 17 ASSOCIATION, FRANKLIN HIGH  
 18 YIELD TAX-FREE INCOME FUND,  
 19 AND FRANKLIN CALIFORNIA  
 HIGH YIELD MUNICIPAL FUND,

20 Plaintiffs,

21 v.

22 CITY OF STOCKTON, CALIFORNIA,  
 23 Defendant.

**EXHIBITS L THROUGH M TO THE  
 DIRECT TESTIMONY  
 DECLARATION OF ROBERT  
 LELAND IN SUPPORT OF  
 CONFIRMATION OF FIRST  
 AMENDED PLAN FOR THE  
 ADJUSTMENT OF DEBTS OF CITY  
 OF STOCKTON, CALIFORNIA  
 (NOVEMBER 15, 2013)<sup>1</sup>**

Adv. No. 2013-02315

Date: May 12, 2014  
 Time: 9:30 a.m.  
 Dept: Courtroom 35  
 Judge: Hon. Christopher M. Klein

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 27 <sup>1</sup> While this declaration is made in support of confirmation of the Plan, out of an abundance of caution, and because  
 28 the evidentiary hearing on Plan confirmation and the trial in the adversary proceeding share common issues, it is  
 being filed in both in the main case and the adversary proceeding.

# Exhibit L

**AGENDA ITEM 15.3**

**14-0202**

***FISCAL YEAR 2012-13 FOURTH QUARTER GENERAL FUND  
BUDGET UPDATE AND YEAR-END PROJECTION***



# City of Stockton

## Legislation Details (With Text)

File #: 14-0202 Version: 1  
 Type: New Business Status: Agenda Ready  
 File created: 2/4/2014 In control: City Council/Successor Agency to the  
 Redevelopment Agency/Public Financing Authority  
 Concurrent  
 On agenda: 2/25/2014 Final action:  
 Title: FISCAL YEAR 2012-13 FOURTH QUARTER GENERAL FUND BUDGET UPDATE AND YEAR-END  
 PROJECTION

### RECOMMENDATION

It is recommended that the City Council accept this report, adopt a resolution amending the Fiscal Year 2012-13 Annual Budget to address a shortfall in funding for Debt Administration and amend the Adopted Budget Council Resolution 2013-06-25-1601-01, Section 7 to provide for the retention of \$3.1 million of the Ending Fund Balance in the General Fund.

Sponsors:

Indexes:

Code sections:

Attachments: [Attachment A - General Fund 4th Quarter Budget Update](#)  
[Attachment B - Revenue Summary FY 2012-13 Year End Projection](#)  
[Proposed Resolution - 2013-14 Q4 Budget Update](#)

Date	Ver.	Action By	Action	Result
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## FISCAL YEAR 2012-13 FOURTH QUARTER GENERAL FUND BUDGET UPDATE AND YEAR-END PROJECTION

### RECOMMENDATION

It is recommended that the City Council accept this report, adopt a resolution amending the Fiscal Year 2012-13 Annual Budget to address a shortfall in funding for Debt Administration and amend the Adopted Budget Council Resolution 2013-06-25-1601-01, Section 7 to provide for the retention of \$3.1 million of the Ending Fund Balance in the General Fund.

### Summary

The City's General Fund budget for Fiscal Year 2012-13 was balanced by making \$26 million in reductions to creditors and retirees under the Pendency Plan adopted on June 26, 2012. All reductions included in this Plan/budget were effective through the entirety of the 2012-13 Fiscal Year.

Staff provided the City Council with three previous status reports on the Fiscal Year 2012-13 General Fund - the first quarter results on December 11, 2012, the second quarter results on March 19, 2013 and the third quarter results on June 25, 2013. The third quarter report concluded that based on information available at that point, and assuming trends apparent at that time continued, the General

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Fund would end the year with a positive available balance between \$6.9 and \$8.9 million, depending on whether any portion of the \$2 million General Fund Contingency Reserve was used in the last quarter of the year.

The Budget Office has now reviewed and analyzed the preliminary financial activity in the General Fund for the final three months ended June 30, 2013, with results shown in Attachment A. The City has closed its financial records and the year-end audit is in progress, however end of year totals are preliminary and unaudited in this report. Staff does not anticipate significant changes to these amounts. Though we had anticipated a normal schedule, and this year-end budget update report would be presented to City Council within six months of year end, there was more effort needed to close out the 2012-13 year. As was discussed in prior reports, the antiquated financial systems, getting outstanding audits caught up, bankruptcy negotiations, preparation for the 2014-15 budget process and start of labor negotiations, all create competing priorities which delayed this report. Going forward, it will be important to address this issue in order to avoid negative impacts on the implementation of Measures A & B. Staff is requesting additional positions as part of the Measure A & B implementation plan (subject to a separate staff report at this meeting). These added positions will not only support the new sales tax measure but can provide much needed assistance with closing efforts and bringing financial reporting current.

Based on twelve month revenue and expense totals, the General Fund is projected to have ended the year with a positive available fund balance of approximately \$16.1 million. This includes \$2.0 million in contingency reserve budget that was not used, as well as approximately \$828,000 of unused Labor Litigation/Chapter 9 funds.

The Adopted Budget Council resolution directed that the General Fund ending balance in its entirety was to be transferred to the Bankruptcy Fund to be used for claims and related costs to exit bankruptcy. The Government Finance Officers Association recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures, which is equivalent to 16.67% of those amounts. Cities with formal reserve policies generally specify between 10 - 20% reserve levels. The Administration now recommends that the portion of the Ending Fund Balance (\$3.1 million) that resulted from the unanticipated refund of County Property Tax Administration Fees (explained in detail later in this report), be retained in the General Fund to help build the available fund balance. With a balance of \$3.1 million (or just under 2%), the City is still substantially below these recommended levels. This recommendation is made to provide a small start towards building up one-time monies to meet the many unfunded, but mission critical needs for spending. These include significant expenditures for deferred building and facility maintenance, deferred tree maintenance, mobile and portable radios for public safety, proposed technology projects identified in the City-wide Technology Strategic Plan, and additional rate changes to fund accumulated deficits in the City Internal Service Funds (Workers' Compensation - \$44.0 million; General Liability-\$4.9 million).

The remaining \$13 million fund balance will, per prior Council direction, be transferred to the Bankruptcy Fund. These funds will be used to settle the claims of creditors that have been negotiated and to pay for the legal expenses associated with the City's bankruptcy. Settlements could be paid from these funds such as the retiree settlement and the anticipated move to the 400 East Main building as part of the settlement with Assured Guaranty under the plan. The City expects to conclude the bankruptcy case by the end of the fiscal year but we expect additional expenses to conclude the case and to fully implement the plan of adjustment. Should the bankruptcy case

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continue, due to the aggressive efforts of the one significant creditor that has yet to reach an agreement with the City, these funds would be used for associated legal expenses. If that case were to be long and protracted these funds would not be sufficient to cover all of those expenditures.

The increase in the 2012-13 General Fund available fund balance estimate provided in this report compared to the third quarter report (including no use of Contingency) is approximately \$7.2 million. This increase was the result of an increase in revenue estimates in a number of categories, as well as higher than previously projected savings in various expenditure categories described below.

By far the largest change was the unanticipated receipt of a one-time Property Tax Administrative Fee (PTAF) refund in the amount of \$3.1 million from San Joaquin County as the result of a court ruling earlier in the year. The remaining variances from the third quarter projections in revenue were improvements in Sales Tax (\$382,000), Utility User Fees (\$151,000), Refunds and Reimbursements (\$720,000) and Rents, Leases and Concessions (\$258,000), partially offset by lower than anticipated collections in Indirect Cost Allocations (\$329,000) and Program Revenues (\$119,000).

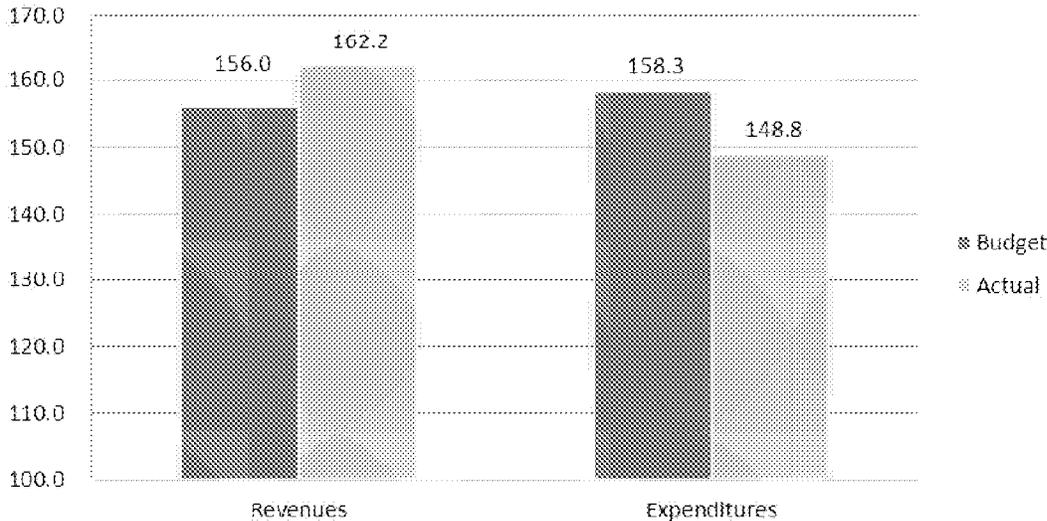
Total expenditure savings were up from third quarter estimates by approximately \$2.6 million. This represented higher than previously anticipated savings in Labor Litigation and Chapter 9 expenditure (\$828,000), as well as higher savings in several City departments and expenditure categories: Fire, Administrative Services, Human Resources, RDA Successor Agency, Grant Match and Tax Collection and Election costs.

Final 2012-13 General Fund year-end revenues are projected in this report at \$162.2 million, an increase over the Amended Budget of \$6.2 million, or approximately 4%. General Fund expenditures for 2012-13 are estimated at \$148.8 million, \$9.5 million, or 6.0% below the Amended Budget. Of the \$9.5 million in expenditure budget savings, \$2.0 million is the result of not utilizing any of the \$2.0 million Contingency Reserve budget. Again, this \$16.1 million in savings is only possible due to the \$26.0 million in cuts made through the City's bankruptcy to balance the budget and the deferral of critical expenditures.

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## FY 2012-13 Budget vs. Actual General Fund Revenues & Expenditures

(in millions \$)



### DISCUSSION

#### Background

One of the strategic initiatives developed to support the City Council's "Fiscal Sustainability - Getting our Fiscal House in Order" goal was to provide regular analysis and reporting of the City's financial status. The Quarterly Budget Update reports are provided as part of that effort.

#### Prior Budget Actions

During the prior three years, several extensive budget actions have been brought before Council that involved significant service and compensation reductions. The Fiscal Year 2011-12 Budget, as adopted by Council on June 21, 2011, was balanced using a combination of service reductions (approximately \$12 million) and significant employee compensation reductions (approximately \$25 million) imposed under the City's second declaration of fiscal emergency in addition to the deferral of critical expenditures. On February 28, 2012 a Fiscal Condition Update was presented to Council that included a revised Fiscal Year 2011-12 net annual operating deficit projection of \$8.6 million. The change was primarily due to declines in revenue, additional subsidy to the Redevelopment Agency for expenditure overdrafts, other actions to address prior year accounting adjustments (e.g. writing off accounts receivables, cash reconciliation variances, etc.), and other items described in that report. The Council approved \$15 million in solutions to resolve deficit fund balances (FY 2010-11 \$6.6 million and FY 2011-12 \$8.6 million) through unrestricted fund transfers and suspending certain general fund supported debt payments, and other actions.. Without these actions at year-end, the General Fund would have ended FY 2011-12 with a large deficit fund balance and a negative cash balance.

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On June 26, 2012 the Council closed a \$26.0 million budget deficit by approving the 2012-13 Annual Budget and Pendency Plan assuming the protection of Chapter 9 (bankruptcy). The Pendency Plan suspended debt payments, reduced retiree medical benefits in FY 2012-2013, continued reductions of pay and benefits imposed under Declarations of Fiscal Emergency and reduced compensation components that exceeded those in the City's labor market. The City filed for Chapter 9 Bankruptcy on June 28, 2012 and on April 1, 2013 the judge ruled that Stockton is eligible for bankruptcy relief. The City continues to provide services under the Pendency Plan while under Chapter 9 protection. The FY 2012-13 Pendency Plan was amended by Council on September 11, 2012, to adjust for new property tax information and agreements reached with labor.

### Budget Monitoring Current Fiscal Year

On June 25, 2013 staff provided the City Council with a status report on the General Fund results for the Third Quarter and Year-end Projection which identified a likely year-end positive fund balance to a range of \$6.9 to \$8.9 million (again depending on whether any of the \$2.0 Contingency Reserve was used in the final months of the year). In that report, General Fund revenue collections were estimated to end the year above the amended budget by \$1.7 million or 1.1%, and it was projected that the overall annual savings in General Fund expenditures would be approximately \$4.8 million or 3.1%.

### Present Situation

#### 2012-13 General Fund Fourth Quarter Results

A review of preliminary year-end revenues and expenditures for Fiscal Year 2012-13, which includes fourth quarter results, has now been conducted. The summary of the year-end outcomes, including a comparison with the Amended Budget and Third Quarter projections is displayed on Attachment A. This analysis covers 12 months of actual activity. The City has closed its financial records and the year-end audit is in progress, however end of year totals are preliminary and unaudited in this report. Year-end results are based on the information currently available with projections to year-end. Staff does not anticipate significant changes to these amounts. Explanations and details regarding specific revenue and expenditure variances are presented in the following pages.

#### Revenue

Based on current information, it is expected that the General Fund revenues will end the year approximately \$6.2 million greater than budgeted, which is above the estimates provided in the prior Quarterly reports. This positive variance (4.0%) from budget reflects offsetting revisions in estimates in both the tax and non-tax revenue categories. As described above the most significant variance from prior estimates reflects the unexpected receipt of \$3.1 million in refunds from the County for prior year over collections of the Property Tax Administration Fee (PTAF). This results from the outcome of litigation in the City of Alhambra et al. v. County of Los Angeles case. The City of Alhambra, along with a number of other cities, sued the County of Los Angeles regarding the calculation of Property Tax Administration fees for the years from 2006-07 to 2011-12. The Cities argued that SB 1096 Triple Flip and Motor Vehicle License Fee revenues, which are now incorporated into Property Tax category in receipts received from the Counties, should be excluded from the calculation of the PTAF charged to cities. The California Supreme Court, on appeal, ruled unanimously that the methodology utilized by the County of Los Angeles, as well as the other

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involved counties, was illegal. Late in the year, San Joaquin County notified the City of Stockton that it would be complying with the refund of PTAF plus accumulated interest. Council approved the settlement of the City's claim against the County of San Joaquin for recovery of these fees on December 17, 2013. Subsequently the City received a payment of \$3.1 million, not including interest to be received in FY 2013-14 which was under negotiation. This amount had not been anticipated in prior budget projections.

Other categories where revenue exceeded the estimates provided in the third quarter review include Sales Tax, Utility Users Tax, Interest Earnings, Refunds and Reimbursements and Rents, Leases and Concessions, offset by lower than anticipated receipts in the Indirect Cost Allocation and Program Revenues categories.

Current estimates indicate that the General Fund received \$162.2 million in revenue for the 12 months of the fiscal year. Attachment B details the year-end revenue received in the General Fund by category, and indicates the variances from the Third Quarter Report as well as the Amended 2012-13 General Fund budget.

**Property Taxes** - Property tax revenues are received primarily in December and May. As the general economy of the City slowly improves, median home prices are trending upward. Overall property tax revenues projections of \$46.7 million are \$3.1 or 7.2% more than projected in the third quarter report, entirely due to the refund of the prior year Property Tax Administrative Fee (PTAF) refund described above.

**Sales Tax** - The final Quarter receipts came in slightly above prior estimates. As a result 2012-13 sales tax revenues are \$382,000 more than the third quarter budget update presumed. This is an increase of \$1.0 million (2.6%) over budget and would represent a 7% increase over Fiscal Year 2011-12 revenues. This growth is attributable to 3.7% increase in point of sale transactions and 18% increase due to a State true-up of the 2011-12 triple flip back fill. The growth in point of sales tax reflects improved automobile sales, the new Wal-Mart Supercenter, improved consumer sentiment and pent-up demand for general consumer goods, and a recovery in travel and tourism boosting sales at restaurants, hotels and car rentals.

**Utility Users Tax** - Total Utility Users Tax (UUT) revenues are projected to come in about 1.4% above the budget for a total of \$31.9 million. Projected UUT revenues are \$152,000 above that projected in the third quarter report reflecting better than anticipated Water, Electricity and Gas UUT receipts. Receipts are received monthly and monitored by an outside consultant. Cable tax revenue came in \$408,000 above the Amended Budget due to a reporting change by AT&T last September which separates cable from telecommunications revenues. The result is that cable revenue reports higher than projected while the telecommunications revenue reports lower. Telecommunication UUT revenues were \$107,000 below the budget. Both Cable and Telecommunications UUT revenues, however, came in slightly below Third Quarter estimates. Receipts from Comcast Cable ended the year at the budgeted level of three percent less than prior year. For AT&T, growth in wireless telecommunications revenues from rate increases, additional wireless customers and prior year catch up payments found by the City's consultant offset most of the loss due to AT&T reporting corrections.

**Franchise Tax** - Overall Franchise revenue is projected to be \$416,000 or 3.7% more than budgeted. This is approximately \$81,000 higher than anticipated in the Third Quarter report. The improved collections are primarily due to improvements in the commercial and industrial sectors leading to increased volume and need for services provided by waste hauler companies. PG&E franchise

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revenues came in 1% below budget as anticipated in the third quarter report. Cable/video franchise revenues improved \$22,000 in the fourth quarter to exceed the amended budget by 3.7%.

**Business License Tax** - The majority of the Business License tax is received in the last five months of the fiscal year. In the third quarter update, the Administrative Services Department projected that it would achieve \$9.1 million by fiscal year end which was \$225,000 more than projected in the second quarter budget update, but still below the budgeted level by \$110,000. Final collections were slightly above that level at \$9,168,000, which was under budget by \$67,000 (0.7%). The growth over prior year collections can be attributed to improved overall compliance and an 11.7% increase in the number of licenses including 261 new and 1,423 renewed licenses.

The General Fund pooled interest earnings were greater than anticipated in the original budget. This resulted from the higher ending fund balance and cash in FY 2011-12, only made possible due to the bankruptcy. This category also includes interest received from the Stormwater Enterprise Fund in repayment of a prior year loan. Collections for the year exceeded the budgeted level by \$271,000.

#### Program Revenues

- **Fire contracts** - Four local fire districts contract with the City for services and reimburse the City based on a percentage of the City's total actual Fire Department operating costs. Fire contract revenues were \$3.3 million or \$583,000 or 14.9% less than the budgeted amount due to the reduction in fire personnel expenditures implemented as part of the 2012-13 Pendency Plan. That result was unchanged from the projection included in the Third Quarter report.
- **Code Enforcement** - Final collections were consistent with third quarter projections at \$2.8 million, but still under budget by \$378,000 or 11.9%. Code Enforcement revenues were lower than the budgeted \$3.2 million due to the impact of the discontinuation of the Teeter Plan by San Joaquin County. Previously, under the Teeter Plan, the City was reimbursed for all amounts owed through the lien process, regardless of what had been collected. Under the new system, the City is reimbursed only when and if monies are collected by the County. It was very difficult to estimate the impact of the change going into this fiscal year absent information on collection rates under the Teeter Plan. Police Department staff used what was thought to be a conservative estimate that the City would collect 40% of the amount liened.
- **Fines & Forfeitures** - The third quarter report projected this category would end the year \$365,000 below budget due to reductions in traffic and parking citations, criminal fines and a prior year correction in DUI fines by San Joaquin County. Higher than expected payments brought on by increased collection activities in the final quarter of the year resulted in revenue receipts almost equal to the budget of \$1.5 million. In addition, a change in the recording of accounts receivable not previously projected added \$518,000 to this category, bringing the total to just over \$2.0 million or \$543,000 over budget. In FY 2012-13 the full parking ticket accounts receivable was recorded with a separate allowance for uncollectible accounts reducing the receivable instead of recording the allowance net of uncollectible accounts as in previous fiscal years. The \$518,000 increase in the receivable is offset by a \$(395,000) allowance for uncollectible accounts in the Misc. Other Revenues category.
- The allowance for uncollectible accounts, shown as a reduction to revenues in the Misc. Other Revenues category was greater than the budget estimate of \$200,000.

**Indirect Cost Allocation** - Indirect costs (City-wide administrative overhead) recovered by the General Fund in FY 2012-13 were less than projected by \$329,000 or 6.8% because federal programs were not charged as budgeted, and capital project expenses were 14% lower than previous years. The

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City is in the process of preparing a request for proposal in order to solicit firms experienced in preparing basic cost allocation plans that are in compliance with guidelines and to provide further review of costing methods used in order to improve the distribution and recovery/reimbursement of these costs.

Reimbursements - As projected in the third quarter update, Police Reimbursements are well above budgeted levels (\$370,000) as a result of several multi-agency enforcement missions and the ability to receive reimbursement for overtime hours incurred. These revenues from agencies such as the FBI and ATF are offset by an increase in overtime expenses within the Police Department, particularly in the Special Investigations Section.

Rents/Leases/Concessions - The Municipal Utilities Department (MUD) pays rent for use of properties and office space purchased and maintained by the General Fund. The rent is adjusted annually based on market value, depreciation and City overhead costs. A true up for Fiscal Year 2011-12 rent was processed during the fourth quarter increasing the revenue in this category by \$258,000 over the amount projected in the Third Quarter report.

#### Expenditures

The General Fund continued to experience savings in the fourth quarter of 2012-13 primarily due to lower than anticipated Bankruptcy expenses, reduced support needed by the Successor Agency and vacant staff positions. These savings were only partially offset by a small, previously anticipated increase in debt service administration costs. Preliminary year-end results show General Fund expended \$148.8 million or 94% of the budgeted expenditures as summarized in Attachment A. This represents an additional \$2.6 million in expenditure savings over what was projected in the Third Quarter report.

The 2012-13 Labor Litigation budget of \$2 million was based on the assumption that all labor agreements would have to be renegotiated before they expired on June 30, 2013. Since only minimal modifications were made to most of the labor agreements, attorney and consultant costs were only \$360,000. Of the remaining \$1.7 million, \$825,000 was used for Chapter 9 costs that exceeded the approved budget. The resulting Labor Litigation unused budget is \$828,000. As reported in the Third Quarter report, the savings from the Labor Litigation budget was applied to help support the General Fund's share of bankruptcy costs which were projected at that time to be \$1.5 million greater than the budget at \$5.7 million. In FY 2012-13 the City spent a total of \$7.0 million on the Chapter 9 filing. Not all of this funding came from the General Fund. This was greater than the original budget due to the creditor's aggressive litigation strategy. The General Fund's share of actual 2012-13 bankruptcy costs ended the year at \$5.0 million which was below the Third Quarter projection by \$724,000.

The projected General Fund subsidy for administration of the Successor Agency has been reduced by an additional \$219,000 since the Third Quarter report based on actual expenses related to the winding down of redevelopment activities. The Successor Agency subsidy was approximately half of the budgeted \$1.1 million subsidy because potential legal expenses did not materialize. The dissolution of the former Redevelopment Agency made it difficult to project in 2012 what legal and litigation expenses might be incurred by the new Successor Agency.

The adopted General Fund budget included \$975,000 for anticipated vacancy savings. Actual savings from vacant positions throughout FY 2012-13 was approximately \$5.0 million, with the

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majority occurring in the Police and Fire Departments. The Police Department expenditures were slightly higher than the \$79.1 million projected in the third quarter report, but still represented savings of \$3.4 million from the budgeted level, reflecting the high level of vacancies experienced by that department. The Fire Department experienced additional vacancy savings in the fourth quarter bringing expenses down to \$34.6 million, \$637,000 less than projected in the third quarter report, and \$1.7 million below the budgeted level. The Fire Department had 11 vacancies toward the end of the fiscal year, up 5 from February. Vacancies were filled slower than anticipated due to the complex re-hire process from the lay-off list. The increase in the savings level from that estimated in the Third Quarter report reflected the fact that that projection assumed that a spike in overtime expenses which occurred last year in the fourth quarter would be repeated. Overtime in the fourth quarter was actually 17% below what had been projected. In the third quarter report Public Works was projected to come in on budget but actually experienced savings of approximately \$152,000 at year end.

The City Council, City Auditor, Peacekeeper Program, Arts Commission and Other Administration expenses all came in close to the third quarter projections with less than \$25,000 in additional savings realized. The City Manager, City Attorney, City Clerk, and Economic Development Departments experienced marginal additional savings of \$25,000 to \$35,000 each. The City Manager's Office came in 3.4% under budget saving \$35,000. The City Attorney's Office experienced significant savings compared to budget (\$384,000 or 41.2%) due to several vacancies occurring early in the fiscal year which were not filled for most of the fiscal year due to workload uncertainties and the City's bankruptcy filing. The City Clerk's Office came in 4.8% below budget with \$34,000 in savings. The Economic Development Department was under budget by \$92,000 also due to vacancies that were filled late in the fiscal year and due to attrition of additional staff in the last half of 2012-13.

Administrative Services ended the fiscal year \$279,000 below budget primarily due to continued vacancy savings. The primary sources of these savings came from the vacancies, in a number of positions throughout Accounting, Revenue Services and the Administrative Services Office. Though substantial efforts were made to fill vacancies as fast as possible, the department continued to experience increased turnover towards the end of the year including several retirements. Much of this can be attributed to substantial cuts that were made to compensation in prior years and the huge demands placed on staff due to the bankruptcy and changes within the organization.

The third quarter report projected that Human Resources would save \$385,000 due to vacancies, postponed training and recruitments, reduced legal service needs and cost savings on pre-employment screening services. Savings in Human Resources exceeded this estimate by \$193,000 with total expenses of \$1.3 million. Additional vacancy savings, legal service savings and a Leadership Development Academy budgeted at \$85,000 but not being implemented until next fiscal year accounts for the additional savings.

As noted above, two budget amendments require Council resolutions. The first amendment authorizes adding \$58,059 to increase the General Fund contribution to Debt Service Administration. Staff and overhead costs related to management of City bonded debt is distributed between assessment districts and City funds based on their share of bond issuances. The General Fund's share was underestimated in the Fiscal Year 2012-13 budget. The third quarter report projected this increase would need to be \$68,000 but this amount has been reduced to \$58,059 based on actual debt service administration expenses and allocation of costs to all bond issuances. The second amendment authorizes the retention of the \$3.1 million in PTAF refund revenue in the General Fund Ending Fund Balance as an exception to the Budget Resolution number 2013-06-25-1601-01,

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Section 7. This action would help provide a start in building a source of funding for the many unfunded infrastructure maintenance needs facing the City. This is also consistent with the City's long term financial forecast. The remainder of the additional General Fund ending fund balance would go, as previously authorized, to the Bankruptcy Fund to help offset ongoing expenses required for the Chapter 9 process.

The Contingency Reserve was not spent in Fiscal Year 2012-13. This \$2 million contingency funding is intended for unexpected expenditures or emergencies that, by their very nature, are impossible to predict. The same level of Contingency Reserve funding was included in the Adopted 2012-13 General Fund Budget.

All other General Fund departments not mentioned above ended the year at or slightly below previously projected levels.

The projected \$3.1 million General Fund ending balance, after the \$13 million is transferred to the Bankruptcy Fund per Council direction, is just under 2% of the City's General Fund revenues for that year. This is significantly below the Government Finance Officers Association recommended levels. Again, though, it must be noted that this balance was only achievable because of the \$26 million of reductions made to creditors and retirees through the Pendency Plan assuming the protection of Chapter 9 Bankruptcy and deferral of critical expenditures.

#### FINANCIAL SUMMARY

Based on the current projections and unaudited year-end data, it is estimated that the City's General Fund ended the Fiscal Year 2012-13 with a \$16.1 positive balance of which \$13 million will be transferred to the Bankruptcy Fund per Council direction. This information will continue to be updated as additional data becomes available.

The following Budget Amendment is recommended to address a shortfall of funding in the Debt Service Administration fund as described above:

#### Increase General Fund Transfer to 201 Debt Administration Fund

010-0000-992	General Fund Transfer Out	\$58,059
201-0000-492	Debt Administration Transfer In	\$58,059
201-2001-510	Debt Administration Expense	\$58,059

Attachment A - 2012-13 Fourth Quarter Budget Update - General Fund  
Attachment B - 2012-13 Revenues - General Fund

**Attachment A**  
**City of Stockton**  
**2012-13 Fourth Quarter Budget Update**  
**General Fund - 010 by Program**

	FY 2012-2013					
	Approved Budget	3rd Quarter Projection	4th Quarter Year End Projection	% of Budget	Change in 4th Quarter vs. 3rd Quarter	4th Quarter Projection vs. Budget
<b>Beginning Available Balance</b>						
Prior Year AB506/Encumbrance*	\$ 2,713,214	\$ 2,713,214	\$ 2,713,214			
<b>Revenues</b>						
General Tax Revenues	136,112,867	138,239,578	142,282,559	105%	4,042,981	6,169,692
Program Revenues	11,506,189	10,560,789	10,442,026	91%	(118,763)	(1,064,163)
Interfund Reimbursements	7,532,129	8,018,552	8,667,264	115%	648,712	1,135,135
Transfers In	836,528	835,909	835,865	100%	(44)	(663)
	<u>155,987,713</u>	<u>157,654,828</u>	<u>162,227,714</u>	<b>104%</b>	<u>4,572,886</u>	<u>6,240,001</u>
<b>Expenditures</b>						
<b>Programs</b>						
Police	82,593,751	79,071,700	79,233,983	96%	(162,283)	3,359,768
Fire	36,343,178	35,261,468	34,624,106	95%	637,362	1,719,072
Public Works	6,829,011	6,829,013	6,677,431	98%	151,582	151,580
Economic Development	682,744	624,950	590,792	87%	34,158	91,952
Peacekeeper Program	214,065	214,065	210,457	98%	3,608	3,608
Arts Commission	33,327	21,379	21,018	63%	361	12,309
	<u>126,696,076</u>	<u>122,022,575</u>	<u>121,357,787</u>	<u>96%</u>	<u>664,788</u>	<u>5,338,289</u>
<b>Program Support for Other Funds</b>						
Library	3,907,000	3,907,000	3,907,000	100%	-	-
Recreation	2,340,000	2,340,000	2,340,000	100%	-	-
Entertainment Venues	2,637,350	2,637,350	2,637,350	100%	-	-
RDA Successor Agency	1,069,248	750,000	530,842	50%	219,158	538,406
Downtown Marina	47,299	47,299	47,299	100%	-	-
Capital Improvement	575,000	575,000	575,000	100%	-	-
Administration Building	162,000	162,000	162,000	100%	-	-
Golf Courses	502,000	502,000	502,000	100%	-	-
Grant Match	262,000	162,000	2,481	1%	159,519	259,519
Public Facility Fee Admin	25,000	25,000	25,000	100%	-	-
Development Services	1,000,000	1,000,000	1,000,000	100%	-	-
	<u>12,526,897</u>	<u>12,107,649</u>	<u>11,728,972</u>	<u>94%</u>	<u>378,677</u>	<u>797,925</u>
<b>Administration</b>						
City Council	465,512	465,511	456,459	98%	9,052	9,053
City Manager	1,012,874	1,012,874	978,104	97%	34,770	34,770
City Attorney	933,639	574,050	549,152	59%	24,898	384,487
City Clerk	716,199	716,199	682,084	95%	34,115	34,115
City Auditor	597,882	595,806	593,094	99%	2,712	4,788
Administrative Services	3,390,099	3,350,667	3,111,474	92%	239,193	278,625
Human Resources	1,919,124	1,534,224	1,340,872	70%	193,352	578,252
Tax Collection & Election	2,198,755	2,198,755	2,057,508	94%	141,247	141,247
Other Administration	(373,212)	(373,212)	(382,409)	102%	9,197	9,197
Vacancy Savings	(975,618)	-	-	0%	-	(975,618)
Inventory Adjustment	-	-	(49,474)	-	49,474	49,474
Labor Litigation	2,012,358	463,358	359,560	18%	103,799	1,652,799
Chapter 9	4,191,547	5,740,526	5,016,071	120%	724,455	(824,524)
	<u>16,080,160</u>	<u>16,278,768</u>	<u>14,712,404</u>	<u>91%</u>	<u>1,568,264</u>	<u>1,378,665</u>
<b>Debt Service</b>						
	978,560	1,046,560	1,036,619	106%	9,941	(58,059)
<b>Contingency</b>						
	2,000,000	2,000,000	-	0%	2,000,000	2,000,000
<b>Expenditure Subtotal</b>	<u>158,290,692</u>	<u>153,455,542</u>	<u>148,835,871</u>	<u>94%</u>	<u>4,619,671</u>	<u>9,454,821</u>
<b>Net Annual Activity</b>	<u>(2,302,979)</u>	<u>4,199,286</u>	<u>13,391,843</u>			
<b>Proj. Ending Available Balance</b>	<u>410,235</u>	<u>6,912,500</u>	<u>16,105,057</u>			

\* The Beginning Balance has been adjusted to include AB506 and encumbrance balances from prior year.

**Attachment B**  
**City of Stockton**  
**2012-13 Revenues**  
**General Fund - 010**

	<b>FY 2012-2013</b>				
	<u>Amended Budget</u>	<u>3rd Quarter Projection</u>	<u>Year End Projection</u>	<u>Variance vs. 3rd Quarter</u>	<u>Variance vs. Budget</u>
<b>General Tax Revenues</b>					
Property Taxes					
Property Taxes	\$ 25,587,100	\$ 26,280,000	\$ 26,326,096	\$ 46,096	\$ 738,996
In-Lieu of Motor Vehicle Fees	17,299,000	17,307,349	17,307,349	-	8,349
Prior Year Admin Adjustment			3,093,428	3,093,428	3,093,428
	<u>42,886,100</u>	<u>43,587,349</u>	<u>46,726,873</u>	<u>3,139,524</u>	<u>3,840,773</u>
Sales Tax					
75% Point of Sale	27,896,856	28,330,077	28,682,711	352,634	785,855
25% County ERAF Backfill	9,799,434	9,937,923	9,937,924	1	138,490
Proposition 172	1,217,200	1,270,000	1,298,885	28,885	81,685
	<u>38,913,490</u>	<u>39,538,000</u>	<u>39,919,520</u>	<u>381,520</u>	<u>1,006,030</u>
Utility Users Tax					
Water	3,121,400	3,246,000	3,370,767	124,767	249,367
Electric & Gas	17,296,500	17,059,000	17,199,134	140,134	(97,366)
Cable	1,887,000	2,333,000	2,295,378	(37,622)	408,378
Telecommunications	9,182,100	9,152,000	9,075,454	(76,546)	(106,646)
	<u>31,487,000</u>	<u>31,790,000</u>	<u>31,940,732</u>	<u>150,732</u>	<u>453,732</u>
Franchise Tax					
PG&E	1,871,700	1,843,600	1,838,485	(5,115)	(33,215)
Cable/Video	2,144,000	2,203,000	2,225,238	22,238	81,238
Waste Haulers	7,245,000	7,549,000	7,612,801	63,801	367,801
	<u>11,260,700</u>	<u>11,595,600</u>	<u>11,676,524</u>	<u>80,924</u>	<u>415,824</u>
Business License Tax	9,235,000	9,125,000	9,168,078	43,078	(66,922)
Hotel/Motel Tax	1,811,000	1,975,000	2,005,668	30,668	194,668
Document Transfer Tax	530,000	456,000	458,431	2,431	(71,569)
Motor Vehicle License	-	150,000	125,724	(24,276)	125,724
Interest	(10,423)	22,629	261,009	238,380	271,432
	<u>11,565,577</u>	<u>11,728,629</u>	<u>12,018,911</u>	<u>290,282</u>	<u>453,334</u>
<b>Program Revenues</b>					
Fire Contracts	3,923,678	3,340,676	3,340,676	(0)	(583,002)
Code Enforcement	3,176,300	2,816,658	2,798,483	(18,175)	(377,817)
Charges for Services	1,963,786	1,871,947	1,898,117	26,170	(65,669)
Fines & Forfeitures	1,480,600	1,268,176	2,023,403	755,227	542,803
Revenues from Other Agencies	758,000	853,918	911,060	57,142	153,060
Licenses & Permits	371,825	379,115	385,061	5,946	13,236
Misc Other Revenues	(168,000)	30,298	(914,775)	(945,073)	(746,775)
	<u>11,506,189</u>	<u>10,560,789</u>	<u>10,442,026</u>	<u>(118,763)</u>	<u>(1,064,163)</u>
<b>Interfund Reimbursements</b>					
Indirect Cost Allocation	4,850,000	4,850,000	4,520,575	(329,425)	(329,425)
Workers Comp Reimbursement	-	-	-	-	-
Refunds & Reimbursements	173,383	462,674	1,173,127	720,452	999,744
Rents/Leases/Concessions	2,508,746	2,715,878	2,973,562	257,685	464,816
	<u>7,532,129</u>	<u>8,018,552</u>	<u>8,667,264</u>	<u>648,712</u>	<u>1,135,135</u>
<b>Transfers In</b>					
Transfers In				-	-
From Technology Fund - 502				-	-
From Parking for Debt Service	836,528	835,909	835,865	(44)	(663)
	<u>836,528</u>	<u>835,909</u>	<u>835,865</u>	<u>(44)</u>	<u>(663)</u>
<b>Total Revenues</b>	<u><b>\$ 155,987,713</b></u>	<u><b>157,654,828</b></u>	<u><b>\$ 162,227,714</b></u>	<u><b>\$ 4,572,886</b></u>	<u><b>\$ 6,240,001</b></u>
<b>% Change from Prior Year</b>	<b>-3%</b>	<b>-2%</b>	<b>1%</b>		

Resolution No.

## STOCKTON CITY COUNCIL

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### RESOLUTION APPROVING AMENDMENTS TO THE 2012-2013 ANNUAL BUDGET AND AMENDING CITY COUNCIL RESOLUTION 2013-06-25-1601-01 TO PROVIDE FOR RETENTION OF \$3.1 MILLION OF ENDING FUND BALANCE IN THE GENERAL FUND

Fiscal Sustainability is one of the City Council's goals; and

The City Council adopted the 2012-2013 Annual Budget on June 26, 2012, based on implementation of the Pendency Plan with \$26 million in reduced payments to creditors and retirees; and

The City Council filed for bankruptcy protection on June 28, 2012; and

The City Council adopted the 2013-2014 Annual Budget on June 25, 2013, and resolution 2013-06-25-1601-01 authorized the unencumbered ending available general fund balance as of June 30, 2013, to be transferred to the Bankruptcy Fund for use toward Chapter 9 project management, litigation, and negotiations with creditors, with remaining funds available to pay settlements for claims; and

The City received \$3,093,428 in fiscal year 2012-13 from the County of San Joaquin for reimbursement of improperly withheld property tax administration fees; and

In order to prepare the City's financial statements for Fiscal Year 2012-2013 certain budget adjustments must be made and the Council desires to direct staff to make such adjustments; and

By the staff report accompanying this Resolution, and incorporated into this Resolution by this reference (Staff Report), the Council has been provided with additional information upon which the actions set forth in this Resolution are based; now, therefore,

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

1. The status report on the 2012-2013 General Fund budget is accepted.

2. The 2012-2013 Annual Budget is amended to include the adjustments to the General Fund budget and inter-fund transfers as follows:

Increase General Fund Transfer to 201 Debt Administration Fund

010-0000-992	General Fund Transfer Out	\$58,059
201-0000-492	Debt Administration Transfer In	\$58,059
201-2001-510	Debt Administration Expense	\$58,059

3. Council Resolution 2013-06-25-1601-01, Section 7 is amended to provide for the retention of property tax administration fee reimbursements in the amount of \$3,093,428 in the General Fund with the remaining unencumbered ending available general fund balance as of June 30, 2013, to be transferred to the Bankruptcy Fund for use toward Chapter 9 project management, litigation, creditor committee expenses and negotiations with creditors, with remaining funds available to pay settlements for claims.

4. The City Manager is authorized and directed to take whatever actions are necessary to carry out the purpose and intent of this resolution.

PASSED, APPROVED, and ADOPTED February 25, 2014.

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ANTHONY SILVA, Mayor  
of the City of Stockton

ATTEST:

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BONNIE PAIGE  
City Clerk of the City of Stockton

# Exhibit M



## BEST PRACTICE

### Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR)

**Background.** Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.<sup>1</sup> In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish up to five separate categories of fund balance, based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent: *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.<sup>2</sup> The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed *unrestricted fund balance*.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.<sup>3</sup> Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and

<sup>1</sup> For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.

<sup>2</sup> These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which must be implemented for financial statements for periods ended June 30, 2011 and later.

<sup>3</sup> Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy.<sup>4</sup>

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.<sup>5</sup> The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.<sup>6</sup> Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);<sup>7</sup>
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Approved by the GFOA's Executive Board, October, 2009.

<sup>4</sup> See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

<sup>5</sup> In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

<sup>6</sup> In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.

<sup>7</sup> However, except as discussed in footnote 4, not to a level below the recommended minimum.