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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 In re:
 13 CITY OF STOCKTON, CALIFORNIA,
 14 Debtor.
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Case No. 2012-32118
 D.C. No. OHS-1
 Chapter 9

16 **OBJECTIONS TO DECLARATION
 AND EXPERT REPORT OF NANCY L.
 17 ZIELKE IN SUPPORT OF
 SUPPLEMENTAL OBJECTION OF
 18 ASSURED GUARANTY CORP. AND
 ASSURED GUARANTY MUNICIPAL
 19 CORP. TO DEBTOR'S CHAPTER 9
 PETITION AND STATEMENT OF
 20 QUALIFICATIONS¹**

Date: February 26, 2013
 Time: 1:30 p.m.
 Dept: C
 Judge: Christopher M. Klein

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 27 ¹ The City is not asking the Court for a ruling on the City's objections to evidence at the February 26, 2013 Status
 28 Conference. Rather, the City will seek direction from the Court at such hearing as to how it would like to proceed as
 to the City's objections.

1 The City of Stockton (the “City”) respectfully submits the following objections² to the
 2 Declaration and Expert Report of Nancy L. Zielke In Support of Supplemental Objection of
 3 Assured Guaranty Corp. and Assured Guaranty Municipal Corp. to Debtor’s Chapter 9 Petition
 4 and Statement of Qualifications filed June 28, 2012. These Objections do not include objections
 5 based on the qualifications, helpfulness, or reliability of Nancy L. Zielke’s (“Zielke”) testimony
 6 as an expert, which are contained in the accompanying “Objections To Declaration And Expert
 7 Report Of Nancy L. Zielke Pursuant To Federal Rule Of Evidence 702 And *Daubert V. Merrell*
 8 *Dow Pharmaceuticals, Inc.*”

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 10 **OBJECTIONS TO DECLARATION OF NANCY ZIELKE**

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
11 4. In my opinion as an expert on municipal 12 finance and budgeting, as presented in my 13 expert report attached hereto as <u>Exhibit B</u> , 14 Stockton has budgeted itself into insolvency. 15 The City repeatedly has failed to take action to 16 ensure its solvency by streamlining costs, 17 cutting nonessential services, outsourcing 18 operations, selling or privatizing underutilized 19 City assets, or increasing revenues. The City 20 has left millions of dollars on the table in terms of additional budget efficiencies and revenue enhancements that could be achieved outside of bankruptcy. That is, the City’s actions have exacerbated its financial problems and contribute to the fiscal distress it now faces.	The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City has “budgeted itself into insolvency” is irrelevant to the Court’s determination as to whether the City is eligible for chapter 9 (except for its implicit admission that the City is, in fact, insolvent). Fed. R. Evid. 401, 402. Moreover, Zielke’s conclusion that the City has “budgeted itself into insolvency” is also speculative and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the “Alternative Model” proposed in Zielke’s Expert Report.
21 5. City Management and the City Council 22 remain in the dark about the City’s true 23 financial condition, and the City’s own 24 financial information cannot be trusted to 25 demonstrate insolvency. The City has not 26 maintained appropriate financial controls, produced timely or accurate financial reports, or instituted best practices in financial management and budget policy that are necessary to understand its financial condition, to respond to budget shortfalls, and to project	The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City’s financial information cannot be trusted is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s conclusions as to the City’s ability to produce timely financial reports is irrelevant to the Court’s determination of the City’s eligibility for chapter 9.

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 28 ² The Federal Rules of Evidence are made applicable to cases under the Bankruptcy Code by Rule of Bankruptcy
 Procedure 9017.

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>future revenues. For example, Stockton’s Comprehensive Annual Financial Report for the 2010-11 fiscal year reports nearly forty (40) material weaknesses and significant deficiencies. And, although the City had initially claimed it needed to file for bankruptcy in late June because it would be out of money in early July, the City now reports that it beat its projection for fiscal year-ending June 2012 by over \$6 million. A lack of understanding of its financial condition does not itself create a fiscal crisis, but the City’s delayed financial reporting and inadequate financial controls illustrate that the City lacked a fair picture of its finances in the lead-up to the Chapter 9 petition date and is still unable to generate accurate reporting and reliable projections.</p>	
<p>6. Although the City has missed opportunities and has failed to take actions to ensure its solvency, the City can take essential steps to balance its current and future year budgets and avoid the pending bankruptcy process. In addition to improving its financial reporting and management practices, Stockton could implement significantly more cuts and push for more reductions to offset the fiscal gaps experienced today, thereby averting the emergency situation.</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City has “failed to take actions to ensure its solvency” is irrelevant to the Court’s determination as to whether the City is eligible for chapter 9 (except for its implicit admission that the City is, in fact, insolvent). Fed. R. Evid. 401, 402. Moreover, Zielke’s conclusion is speculative and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out budget cuts and revenue enhancements proposed by Zielke’s Alternative Model.</p>
<p>7. Stockton can take action to maximize its revenues. The City has neither afforded its citizens an opportunity to vote on new taxes, nor included discussion of a tax increase on the City Council’s public agenda, nor sought to charge for various services currently being afforded to its residents for free. Nor has the City adequately explored avenues to increase revenue through sales or privatization of its property. Such new or enhanced revenue sources remain available to the City.</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City has “budgeted itself into insolvency” is irrelevant to the Court’s determination as to whether the City is eligible for chapter 9 (except for its implicit admission that the City is, in fact, insolvent). Fed. R. Evid. 401, 402. Moreover, Zielke’s conclusion that the City has “budgeted itself into insolvency” is also speculative and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the “Alternative Model” proposed in Zielke’s Expert Report.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>8. The City can cut non-mandated and nonessential costs. The City has not separated the essential from the nonessential services across each department nor exhausted all its options to cut department spending. Even though Stockton has long known that its finances are out of control, the City continues to fund these nonessential services and to accept elevated department spending today, all while foregoing other cost-saving opportunities, such as privatization or consolidation. Significant reductions and increased efficiencies remain available to the City that would address these fiscally irresponsible spending practices and substantially reduce the City’s financial burdens.</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City “has not separated the essential from the nonessential services . . . nor exhausted all its options to cut department spending” is vague, speculative, and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the recommendations in the Alternative Model proposed in Zielke’s Expert Report. Moreover, Zielke’s conclusions are irrelevant to the Court’s determination as to whether the City is eligible for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>9. In order to avert insolvency now and in the future, the City can improve its financial management practices; it can enact significantly more cuts to nonessential services and unnecessary expenditures; it can institute other cost-saving measures through privatization and consolidation; and it can take steps to raise revenues. Instituting these revenue and expense budget alternatives, as described in the Revised Baseline Budget Alternative Model in my report, would enable the City to realize both lower costs and higher revenues to balance its budget while maintaining essential city services and increasing its General Fund balance moving forward.</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City can still avoid insolvency is speculative and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the recommendations in the Alternative Model proposed in Zielke’s Expert Report.</p>
<p>10. In summary, the City does not have a reliable handle on either its current finances or its future finances, continues to fund nonessential programs and services, and has refused to explore sources of available revenue and revenue enhancement measures through all relevant periods. Stockton can achieve various budget efficiencies that, when combined with revenue enhancements, would allow the City to remain viable and cash flow solvent outside of bankruptcy.</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City has refused to explore sources of available revenue enhancements and budget efficiencies is vague, speculative, and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the recommendations in the Alternative Model proposed in Zielke’s Expert Report. Moreover, Zielke’s conclusion that the City</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
	does not have a reliable handle on its finances is irrelevant to the Court’s determination as to whether the City is eligible for chapter 9. Fed. R. Evid. 401, 402.

OBJECTIONS TO EXPERT REPORT OF NANCY ZIELKE

PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>Stockton, through its own inaction and indecision, has budgeted itself into insolvency. The AB 506 process and the Chapter 9 filing could have been avoided had the City reduced operating expenses in the face of falling revenues, like many other cities facing similar challenges. The City’s repeated lack of action to streamline costs, cut non-essential services, outsource operations, sell or privatize underutilized city assets, and increase revenues worsened a manageable problem. The City left millions of dollars on the table in terms of additional budget efficiencies and revenue enhancements that could be achieved outside of bankruptcy without jeopardizing public safety. For instance, the City waited until December 4, 2012 – five months into bankruptcy – to request a hardship exemption from CalPERS – which could have reduced its payments in the current fiscal year by approximately \$1.25 million. (Zielke Decl., Exh. B., p. 15)</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City has “budgeted itself into insolvency” is irrelevant to the Court’s determination as to whether the City is eligible for chapter 9 (except for its implicit admission that the City is, in fact, insolvent). Fed. R. Evid. 401, 402. Moreover, Zielke’s conclusions that the City has “budgeted itself into insolvency” and that the City has “left millions of dollars on the table in terms of additional budget efficiencies and revenue enhancements” is also speculative and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the “Alternative Model” proposed in Zielke’s Expert Report, including, but not limited to, the City’s ability to make additional drastic cuts in its budget while continuing to provide necessary City services and the willingness of the City’s citizens to pass multiple new tax increases.</p>
<p>Further, the City’s own financial information cannot be trusted to demonstrate insolvency. Its long-delayed Comprehensive Annual Financial Report for the 2010-11 Fiscal Year (“FY 2010-11 CAFR”) reports nearly 40 material weaknesses and significant deficiencies. Although the City had initially claimed it needed to file for bankruptcy in late June because it would be out of money in early July, the City now reports that it beat its projections for the fiscal year ending June 2012 by over \$6 million and that the City was wrong in estimating approximately 10 principal</p>	<p>The City objects on the grounds that Zielke’s statements that the City’s financial information cannot be trusted lacks foundation, and is vague, speculative, and assumes facts not in evidence. Zielke’s statements in this regard are also irrelevant to the Court’s determination of the City’s eligibility for chapter 9, because they do not alter the fact of the City’s insolvency. Fed. R. Evid. 401, 402.</p>

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PARAGRAPH OBJECTED TO	GROUND FOR OBJECTION
<p>categories of revenues and expenses. The City just does not have a reliable handle on either its current finances or its future finances. A lack of understanding itself does not create a fiscal crisis, but the City’s delayed financial reporting and inadequate financial controls illustrate that the City lacked a fair picture of the City’s finances in the lead-up to the Chapter 9 petition date and is still unable to generate accurate reporting and reliable projections. In fact, the City could implement significantly more cuts and push for more reductions to offset the fiscal gaps experienced today, thereby averting the emergency situation. With these logical and proven actions, we demonstrate that budgeting oneself into insolvency is not the only option. (Zielke Decl., Exh. B., pp. 15-16)</p>	
<p>In this report we identify over \$24 million in cost-cutting measures the City could have implemented in its FY 2012-13 Budget and over \$9.5 million in combined revenue-generating activities Stockton could have and should have pursued. Even without Stockton’s unexpected \$6 million surplus in 2011, the availability of these options to create a budget surplus undermines Stockton’s claim of insolvency. (Zielke Decl., Exh. B., p. 16)</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that the City has could impose new budget cuts of \$24 million and new revenues of over \$9.5 million is highly speculative, and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the “Alternative Model” proposed in Zielke’s Expert Report. Moreover, Zielke’s conclusions in this regard are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 because Zielke’s underlying statement that the City has budgeted itself into insolvency does not affect the fact of the City’s insolvency. Fed. R. Evid. 401, 402.</p>
<p>In short, City Management has no grasp on the City’s finances. Moreover, City Management failed to take the following essential and logical steps to balance the City’s current and future year budgets to avoid Chapter 9: (Zielke Decl., Exh. B., p. 16)</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that that the City has not taken “logical steps” to balance its budget is vague, speculative, and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the Alternative Model proposed in Zielke’s Expert Report. Moreover, the statement that the City has not taken these “logical steps” is irrelevant to the Court’s determination of the City’s</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
	eligibility for chapter 9 insofar as it does not impact the determination of the City’s actual insolvency. Fed. R. Evid. 401, 402.
<p>The City did not identify and pursue opportunities to maximize revenues as property tax, sales tax and other revenues fell during the recent financial crisis. Even though it recognized years before seeking Chapter 9 relief that the City’s spending was outpacing its revenues, Stockton has refused to act. Since 2010, the City has neither afforded its citizens an opportunity to vote on new taxes, nor included discussion of a tax increase on the City Council’s public agenda, nor sought to charge for various services currently being afforded to its residents for free. Although Stockton shied away from testing any ballot initiative in recent years, 171 cities and counties in California passed tax and bond measures in last month’s election alone, including 80% percent of general tax measures proposed. Stockton never gave its citizens a chance to vote for a measure that would avoid bankruptcy by raising revenue, or for a tax that would fund additional public safety or public improvements. (Zielke Decl., Exh. B., p. 16)</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusion that that the City has not has not identified and pursued opportunities to maximize revenues is vague, speculative, and assumes facts not in evidence in that it rests on numerous unsupported assumptions with regard to the City’s ability to carry out the Alternative Model proposed in Zielke’s Expert Report, including, but not limited to, the assumption that the City’s citizens would vote to pass multiple new tax increases. Moreover, Zielke’s conclusions are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 insofar as they do not impact the determination of the City’s actual insolvency. Fed. R. Evid. 401, 402.</p>
<p>The City failed to undertake the politically-unpopular work of distinguishing between “essential” and “nonessential” expenses and separating mandated services from non-mandated services, and, instead, has taken the politically-expedient course of continuing popular, but clearly non-essential, expenses. Even though the City knew that its finances were out of control no later than 2010, the City continued to fund unneeded services and pay above-market wages and benefits in FY 2011-12. Even a cursory review of its current budget shows that the City continues to fund similar fiscally irresponsible spending practices. Along with continuing to fund nonessential services, the City also failed to exhaust all its options in cutting department spending and did not explore alternative opportunities such as privatization or consolidation. (Zielke Decl., Exh. B., p. 16)</p>	<p>The City objects on the grounds that these statements lack foundation. Furthermore, Zielke’s conclusions that that the City has not “undertake[n] the politically-unpopular work” of distinguishing essential and nonessential services, and that the City continued to fund “nonessential” services are vague, speculative, assumes facts not in evidence and are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 insofar as they do not impact the determination of the City’s actual insolvency. Fed. R. Evid. 401, 402.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>Despite years of attempting to get its “fiscal house in order,” Stockton to this day remains unable to produce accurate financial reports within a reasonable time period, even to its City Council or senior staff. Although the importance of understanding mistakes made in the past cannot be overemphasized, the City’s focus on cleaning up past errors has come at the expense of producing accurate and timely financial reports to the City Council this year. The City has just produced its audited CAFR for FY 2010-11 even though it is well past the deadline, its reports have contained numerous accounting errors and other problems requiring restatement, and its beginning fund balances have continually changed throughout the AB 506 process and its Chapter 9 case. Due to these reporting errors, it is difficult to believe the City understands its own cash position, and that that anyone in City Management had “an accurate picture of revenues and expenditures” in the lead-up to bankruptcy (or since). Thus the City cannot reasonably expect either creditors or this Court to accept at face-value its financial information. As illustrated by the City’s latest financials, even the City’s short-term projections are consistently untrustworthy and cannot be the basis for reasoned decision-making or future projections. (Zielke Decl., Exh. B., p. 17)</p>	<p>The City objects on the grounds that these statements lack foundation. Moreover, Zielke’s statements as to the City’s ability to produce “accurate” or “timely” financial reports” is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Furthermore, Zielke’s conclusion that it is “difficult to believe the City understands its own cash position” is vague, speculative, and assumes facts not in evidence. Finally, Zielke’s implication that the Court should not accept the City’s financial information is an improper legal conclusion in that it usurps the Court’s role in determining the weight of evidence and ultimately deciding the issue of the City’s insolvency.</p>
<p>The City has not adopted best practices in financial management and budget planning policy. Best practices in local government financial management emphasize the importance of producing both accurate and timely financial reports that meet the needs of decision makers. In Stockton there is a lack of institutional knowledge and accountability within senior management positions on current financial conditions. As a result, City Management and the City Council remain in the dark about the City’s true financial condition. (Zielke Decl., Exh. B., p. 17)</p>	<p>The City objects on the grounds that these statements lack foundation. Moreover, Zielke’s conclusion that the City “has not adopted best practices” is vague and assumes facts not in evidence, and is speculative in that it assumes that the City could have implemented all of the measures contained within Zielke’s Alternative Model. Zielke’s statements that Stockton has a “lack of institutional knowledge and accountability” and that City Management and the City Council “remain in the dark about the City’s true financial condition” are also vague, speculative, and assume facts not in evidence. Finally, Zielke’s conclusion that the City has not adopted best practices is</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
	irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402
Section VII of this report sets forth a Revised Baseline Budget Alternative Model that outlines detailed revenue and expense budget alternatives that balance the City’s budget while maintaining essential city services and increasing its General Fund balance moving forward. A summary of that model is set forth in Table 1 below: (Zielke Decl., Exh. B., p. 17)	The City objects on the grounds that Zielke’s conclusion that the City could have implemented the Alternative Model lacks foundation. Moreover, this conclusion is highly speculative, vague, and assumes facts not in evidence in that it rests on numerous unsupported assumptions, including that the City could have imposed substantial additional budget cuts while continuing to provide necessary City services and that the City’s citizens would have voted to approve multiple new tax measures. Furthermore, the fact that the City did not adopt the measures outlined in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
“Table 1 – Summary of Revised Baseline Budget Alternative Model” – Zielke Decl., Exh. B., p. 18	The City objects to the Alternative Model outlined in Table 1 on the grounds that Zielke’s conclusion that the City could have implemented the Alternative Model lacks foundation. Moreover, this conclusion is highly speculative, vague, and assumes facts not in evidence in that it rests on numerous unsupported assumptions, including that the City could have imposed substantial additional budget cuts while continuing to provide necessary City services and that the City’s citizens would have voted to approve multiple new tax measures. Furthermore, the fact that the City did not adopt the measures outlined in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
Bankruptcy Code § 109(c)(3) provides that a municipality is eligible to be a Chapter 9 debtor “if and only if . . . [it] is insolvent.” Section 101(32)(C) defines “insolvent” for purposes of Chapter 9 as “financial condition such that the municipality is--(i) generally not paying its debts as they become due unless such debts are	The City objects on the grounds that these statements lack foundation. Zielke’s conclusion that the City “has failed to produce reliable evidence that it was insolvent as of June 28, 2012 or that it will be unable to pay its debts as they become due in its current fiscal year” is vague in that

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PARAGRAPH OBJECTED TO	GROUND FOR OBJECTION
<p>the subject of a bona fide dispute; or (ii) unable to pay its debts as they become due.” As set forth below, Stockton has failed to produce reliable evidence that it was insolvent as of June 28, 2012, or that it will be unable to pay its debts as they become due in its current fiscal year. (Zielke Decl., Exh. B., p. 20)</p>	<p>it does not state what standard “reliable evidence” would meet, nor does Zielke state what “reliable evidence” she has that the City is not insolvent. Moreover, this statement is speculative, and assumes facts not in evidence in that it assumes that the City could have implemented the Alternative Model proposed by Zielke. This statement is also an improper legal conclusion in that Zielke has no legal expertise and is usurping the Court’s authority to make a legal determination as to the City’s insolvency under section 109(c)(3).</p>
<p>Stockton’s financial reporting remains seriously flawed and inherently unreliable. The City’s own financial information cannot be trusted to demonstrate insolvency. Last week, the City staff presented to the City Council for its approval the year-end numbers for FY 2011-12. Casting still more doubt on the City’s understanding of its finances, this report shows that the City actually ended FY 2011-12 with a General Fund surplus of over \$6.2 million. In comparison, the approved Pendency Plan anticipated an available balance of \$0.0 at the end of FY 2011-12.¹ In addition, FY 2012-13 first quarter results show revenues coming in ahead of targets, while expenditures have been below budgeted amounts. (Zielke Decl., Exh. B., p. 20)</p>	<p>The City objects on the grounds that Zielke’s statements as to the City’s financial information is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the Court should not accept the City’s financial information is an improper legal conclusion in that it usurps the Court’s role in determining the weight of evidence and ultimately deciding the issue of the City’s insolvency.</p>
<p>This illustrates City Management’s lack of ongoing monitoring and proper reporting of the financial condition of the City. By late June, the City should have been able to forecast estimated personnel cost savings and estimated revenues. Had the City been monitoring revenues and expenses on a monthly basis and been current with its accounting allocations, it should have been able to detect these trends and budget variances in the development of the FY 2012-13 budget. In short, the City does not have a reliable handle on either its current finances or its future finances. (Zielke Decl., Exh. B., p. 20)</p>	<p>The City objects on the grounds that Zielke’s statements as to the City’s financial information is vague, speculative, and assumes facts not in evidence. Furthermore, Zielke’s statement further assumes facts not in evidence in that Zielke provides no independent evidence or financial analysis showing that the City is not actually insolvent or that the City’s financial information was not the best available to the City. Moreover, Zielke’s implication that the Court should not accept the City’s financial information is an improper legal conclusion in that it usurps the Court’s role</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
	in determining the weight of evidence and ultimately deciding the issue of the City's insolvency.
<p>The City's FY 2010-11 CAFR reports nearly 40 material weaknesses and significant deficiencies. And although the City had initially claimed it needed to file for bankruptcy in late June because it would be out of money in early July, the City now reports that it beat its projections for the fiscal year ending June 2012 by over \$6 million and that the City was wrong in estimating approximately 10 principal categories of revenues and expenses. For example the following items were not disclosed in the February 2012 Staff Report, Pendency Plan or any reported monthly/quarterly FY 2011-12 budget reports:</p> <ul style="list-style-type: none"> • Adjustments to the FY 2011-12 beginning fund balance were made after the presentation of the February 28, 2012 staff report and FY 2012-13 Proposed Budget • Unrecognized rental inspection income which started during the fourth quarter • Failure to report accurate personnel and maintenance reported savings within department budgets with the submission of the Pendency Plan • Increased debt administration costs without a revised spending plan • Shortfall in business licenses during the last quarter that were not detected in time to include in the estimates provided in the Pendency Plan • Lack of controls to managed capital improvement accounts • Inaccurate payments based on the use of outdated schedules 	<p>The City objects on the grounds that Zielke's statements as to the City's financial information is vague, speculative, and assumes facts not in evidence. Furthermore, Zielke's statement further assumes facts not in evidence in that Zielke provides no independent evidence or financial analysis showing that the City is not actually insolvent or that the City's financial information was not the best available to the City. Moreover, Zielke's implication that the Court should not accept the City's financial information is an improper legal conclusion in that it usurps the Court's role in determining the weight of evidence and ultimately deciding the issue of the City's insolvency.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<ul style="list-style-type: none"> • Errors in health trusts accounting • Inability to project and report growth in actual sales tax revenues paid monthly to the City. (Zielke Decl., Exh. B., pp. 20-21) 	
<p>A&M questions why these adjustments and revised projections were not reported in the February 28, 2012 Staff Report, the June 2012 Pendency Plan, and the September 2012 Budget Amendment for FY 2012-13. As the City is now reporting a positive ending fund balance, this information suggests that the City had a budgeted fund balance available on July 1, 2012 to meet payroll and other General Fund obligations. (Zielke Decl., Exh. B., p. 21)</p>	<p>The City objects on the grounds that Zielke’s statements as to the City’s financial information is vague, speculative, and assumes facts not in evidence. Furthermore, Zielke’s statement further assumes facts not in evidence in that Zielke provides no independent evidence or financial analysis showing that the City is not actually insolvent or that the City’s financial information was not the best available to the City. Moreover, Zielke’s implication that the Court should not accept the City’s financial information is an improper legal conclusion in that it usurps the Court’s role in determining the weight of evidence and ultimately deciding the issue of the City’s insolvency.</p>
<p>A&M also questions the City’s ability to prepare basic cash flow projections. The City prepared a one-year cash flow projection on July 2, 2012 to project month-to-month of amounts of cash its plans on receiving or spending throughout the year. We could not determine if the City had ever prepared cash flow projections beforehand. The cash flow projections did not include a final beginning cash balance as of July 1, it was based on budgetary projections and it did not include any analysis with year to date actuals. Other major concerns with the projections include:</p> <ul style="list-style-type: none"> • Expenditures for salaries will vary according to timing of hires and the separation of employees. Additionally, the cash flow projections did not assume the hire of vacant positions. • Cyclical revenues, such as hotel/motel tax and fines and 	<p>The City objects on the grounds that Zielke’s statements as to the City’s financial information is vague, speculative, and assumes facts not in evidence. Furthermore, Zielke’s statement further assumes facts not in evidence in that Zielke provides no independent evidence or financial analysis showing that the City is not actually insolvent or that the City’s financial information was not the best available to the City. Moreover, Zielke’s implication that the Court should not accept the City’s financial information is an improper legal conclusion in that it usurps the Court’s role in determining the weight of evidence and ultimately deciding the issue of the City’s insolvency.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>forfeitures, are also flat lined even though they have historical receipt patterns that would dictate varying payments each month.</p> <ul style="list-style-type: none"> The City fails to account for multiple adjustments that have been made for the prior year. As mentioned in the First Quarter Budget Update, additional revenues and expenditures savings were both recognized past the end of the fiscal year. There is no factor in the model for the multiple adjustments the City continues to make at the end of each fiscal year, making it difficult to trust the City’s projections. (Zielke Decl., Exh. B., pp. 21-22) 	
<p>As a result, we were unable to find whether the City has missed any payrolls since July 1, 2012, or determine whether it was cash flow insolvent on or prior to June 30, 2012. (Zielke Decl., Exh. B., p. 22)</p>	<p>The City objects on the grounds that these statements lack foundation. Moreover, the fact that Zielke was not herself able to determine whether the City has missed payrolls or is cash flow insolvent is irrelevant to the Court’s own determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>We also question management’s accountability over the City’s review process to ensure that programs and departments do not overspend. It appears there are no controls in place as the large volume of adjustments indicates that there is a lack of knowledge or action by senior City employees as spending occurs. (Zielke Decl., Exh. B., p. 22)</p>	<p>The City objects on the grounds that these statements lack foundation. Moreover, Zielke’s statement that she “question[s] management’s accountability” and that there “appears there are no controls in place” is vague, speculative, and assumes facts not in evidence in that Zielke offers no baseline for her comments. Moreover, Zielke’s conclusions as to the City’s “lack of controls” is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>Like most other California and United States cities, Stockton pools its cash for investment purposes. While the City indicated that it was balancing its bank accounts each month, we were unable to validate either the June 30, 2012 or October 31, 2012 actual cash balances or budgeted General Fund fund balances. (Zielke Decl., Exh. B., p. 22)</p>	<p>The City objects on the grounds that these statements lack foundation. Moreover, the fact that Zielke was not herself able to validate cash or general fund imbalances is irrelevant to the Court’s own determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Finally, as discussed in Section VII, the City had numerous budget amendments for both the FY 2011-12 and FY 2012-13. The City did not demonstrate it took all necessary action to ensure solvency as it never took essential and logical steps to balance its current and future year budgets in an effort to avoid the pending bankruptcy process. (Zielke Decl., Exh. B., p. 22)</p>	<p>The City objects on the grounds that these statements lack foundation. Moreover, these conclusions are highly speculative, vague, and assume facts not in evidence because they assume that the City would have been able to adopt all of the measures contained within the Alternative Model. The Alternative Model itself rests on numerous unsupported assumptions, including that the City would be able to impose substantial additional budget cuts while continuing to provide necessary services and that the City’s citizens would vote to pass numerous new tax increases. Finally, the fact that the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Under City Charter section 1910, “at the conclusion of each fiscal year, a Comprehensive Annual Financial Report (CAFR) shall be prepared in sufficient detail to show the financial condition of the City’s funds for the preceding year.” Although fiscal year 2010-11 ended on June 30, 2011, the City’s financial statements were just released on December 5, 2012. In its Memorandum on Internal Controls and Required Communications for Fiscal Year 2010-11, the City’s outside auditor, Maze & Associates, reported 12 material weaknesses and 25 significant deficiencies, including:</p> <ul style="list-style-type: none"> • Inaccurate financial reporting in prior years required restatement and correction of beginning balances of numerous account 	<p>The City objects on the grounds that Zielke’s statements as to the City’s financial information is vague, speculative, and assumes facts not in evidence. Furthermore, Zielke’s statement further assumes facts not in evidence in that Zielke provides no independent evidence or financial analysis showing that the City is not actually insolvent or that the City’s financial information was not the best available to the City. Moreover, Zielke’s implication that the Court should not accept the City’s financial information is an improper legal conclusion in that it usurps the Court’s role in determining the weight of evidence and ultimately deciding the issue of the City’s insolvency.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>balances</p> <ul style="list-style-type: none"> • Facts indicate a lack of diligent application of appropriate procedures and accounting theory in prior years • Staff had procedural breakdowns which resulted in errors such as lack of comparison of sub ledgers to general ledger balances for certain receivables • Lack of upkeep or upgrade of the financial system created highly labor intensive effort that raised the risk of error, increased effort to ensure accuracy, and significantly delayed report issuance • There was no evidence that analyses had been prepared nor allowances established for loans receivable in foreclosure or default, or for interfund balances • Not all receivable balances were reconciled to sub ledgers and adjusted as part of routine year-end closing procedures requiring correction of balances • There was a reversal of prior year liabilities due to a lack of thorough analysis of ending balances • There were several internal control weaknesses at four of the 39 remote sites (which were chosen for the audit because they are material to the City’s financial statements), increasing the risk of error and fraud • Lax enforcement of journal entry reviews • Accrued interest had not been recorded on loans from property 	

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>owners leading to an understatement of receivables balance</p> <ul style="list-style-type: none"> • Controls and processes are not receiving operational scrutiny • Staff have a lack of understanding on Indirect Cost Plans and does not uniformly charge indirect costs leading to under billing for costs that might be eligible for reimbursement • The City’s FY 2010-11 annual budget and year-end financial reporting are inconsistent making budgetary compliance difficult • The evaluation of subsequent activity and billing cycle procedures were not present leading to an understatement of receivables balance • Double counting of parking citation revenues and procedural problems led to a misstatement of cash balances • Controls over the City’s cash accounts are insufficient and staff may not detect errors or fraud in a timely manner • Prior year calculations of remediation liabilities include mathematical errors which understated liabilities • There is no indication that the City completed a review of check registers before processing checks raising the potential risk of undetected errors or fraud • The City is out of compliance with its own capitalization policy including the expensing of capital assets leading to an understatement of capital assets 	

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<ul style="list-style-type: none"> • Depreciation is not being calculated correctly • The parking meter revenue collection process lacks sufficient oversight increasing the risk for misappropriation of cash • Underreporting of cash and activity balances increases the risk of unauthorized activity • Lack of prompt recording of cost disallowances led to an overstatement of receivables • Inadequate segregation of duties led to an increased risk that errors or fraud could occur or go undetected • Lack of routine reconciliations led to omissions of financial transactions and an understatement of accounts receivable by the library fund of \$3.4 million. (Zielke Decl., Exh. B., pp. 22-24) 	
<p>Additionally, the recently released FY 2010-11 CAFR, identified “Prior Period Adjustments,” totaling \$15.1 million within the General Fund of which \$4.1 million was a result of prior year accounting errors and duplication of accounting entries, and \$10.9 million was the result of allowances for interfund loan losses. (Zielke Decl., Exh. B., p. 24)</p>	<p>The City objects on the grounds that Zielke’s statements as to the City’s financial information is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the Court should not accept the City’s financial information is an improper legal conclusion in that it usurps the Court’s role in determining the weight of evidence and ultimately deciding the issue of the City’s insolvency.</p>
<p>It is obvious that Stockton’s financial management structure is in need of major fiscal repair and overhaul. Stockton has struggled to control costs amid a severely weakened local economy and its struggle has been compounded by prior year accounting errors. (Zielke Decl., Exh. B., p. 24)</p>	<p>The City Objects on the grounds that these statements lack foundation. Moreover, Zielke’s statements that the City’s “financial management structure is in need of major fiscal repair and overhaul” and that the City has “struggled to control costs” are vague and speculative, and are irrelevant to the Court’s determination of the City’s eligibility for chapter 9.</p>

1 PARAGRAPH OBJECTED TO	 GROUNDS FOR OBJECTION
2 The City Manager has known about these issues 3 for a long time. The former Chief Financial 4 Officer Susan Mayer stated in a letter to the 5 Deputy City Manager in September 2011, 6 “Financial planning and reporting failures have 7 misrepresented the City’s condition and left the 8 City on the brink of insolvency,” and, “the 9 depth of department challenges approaches gross negligence that have built up over the past years and decades.” Ms. Mayer’s letter is a prime example of the City’s inefficiencies in producing timely and accurate financial reports. (Zielke Decl., Exh. B., p. 24)	The City objects on the grounds that the fact that the City Manager has known about issues concerning the City’s finances “for a long time” is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
10 On February 28, 2012, City Manager Bob Deis 11 presented to the City Council a fiscal condition 12 update for Fiscal Years 2010-11, 2011-12, and 13 2012-13. He recommended fund transfers and 14 actions to balance prior years’ budgets. 15 Subsequently, Mr. Deis identified a projected 16 \$20 to \$38 million deficit for FY 2012-13. His 17 final recommendation was that the City should 18 suspend debt service payments and commence 19 the AB 506 process to avoid insolvency. He 20 states, “It is apparent that past financial 21 practices of former City staff and possibly 22 contractors, which were not disclosed to the Council, have contributed to the City’s current financial situation. Given the grave consequences now being faced by the City, the City Manager, and City Attorney wish to investigate these practices for possible recourse.” To date, however, the City has made no public findings regarding this investigation nor issued any remediation policies or guidance to prevent such misconduct in the future. (Zielke Decl., Exh. B., pp. 24-25)	The City objects on the grounds that Zielke’s contention that the City has not made public findings regarding its investigation into its financial situation is vague, speculative, and assumes facts not in evidence. Similarly, Zielke’s statement that the City has not “issued any remediation policies or guidance to prevent such misconduct in the future” is also vague, speculative, and assumes facts in evidence. Moreover, these statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that the lack of an investigation or remediation policies/guidance has no bearing on the City’s actual insolvency. Fed. R. Evid. 401, 402.
23 On April 2, 2012, State of California 24 Comptroller John Chiang directed his office to 25 begin an audit investigation into the financial 26 practices and reporting of the City under 27 Government Code sections 12464(a), 12468, 28 12410, and Health and Safety code section 34167.5. The following are annual requirements contained in the State provisions that the City failed to meet:	The City objects on the grounds that the alleged failure of the City to meet certain annual requirements is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<ul style="list-style-type: none"> • Filing of the Annual Financial Transaction Report for FY 2010-11 and FY 2011-12, which was due on or before October 18th following the end of the fiscal year. • Filing of the Annual Redevelopment Agency’s Financial Transaction report for FY 2010-11 due on or before December 31, 2011, and the FY 2011-12 Report, due on or before December 31, 2012. • Filing of the Annual Street Report for FY 2010-11 and FY 2011-12, due on or before October 1st following the end of the fiscal year. (Zielke Decl., Exh. B., p. 25) 	
<p>The State Comptroller’s Audit is also reviewing fund deficits that were recently stated in FY 2008-09, as “the emergence of such deficits in such a short time raises concerns about the reliability and accuracy of the information in the FY 2009-10 reports.” The results of this audit are still pending and will be important in the implementation of reforms and a recovery plan for the City. (Zielke Decl., Exh. B., p. 25)</p>	<p>The City objects on the grounds that Zielke’s reference to the results of an audit which “are still pending” is vague, speculative, and assumes facts not in evidence. Moreover, any such findings will likely be irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402</p>
<p>One of the challenges in determining the City’s current financial position is the lack of current financial information, actual cash position, and budgetary performance information. Stockton has just issued its annual financial report for the year ending June 30, 2011, and a preliminary unaudited budget to actual variance report as of June 30, 2012. In fact, the current CFO, Vanessa Burke, indicated in her deposition on November 15, 2011, that the City had not closed its monthly financial periods since May 2012 for FY 2011-12. Ms. Burke also indicated</p>	<p>The City objects on the grounds that Zielke’s reference to the City’s alleged “lack of current financial information, actual cash position, and budgetary performance information” is vague, speculative, and assumes facts not in evidence. Moreover, these statements, as well as the fact that the City may only use “periodic reports” to monitor its financial condition are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>that the City does not prepare routine budget-to-actual reports for the City Manager and City Council to monitor the City’s financial performance, but only “periodic reports” on an inconsistent basis. (Zielke Decl., Exh. B., pp. 25-26)</p>	
<p>The Government Finance Officers Association (GFOA’s) 2008 Best Practices guidelines, titled “Improving the Timeliness of Financial Reports,” explain that “financial reports are intended to meet the needs of decision makers. Accordingly, timeliness was identified as one of the characteristics of information in financial reporting in Concepts Statement No. 1 of the Governmental Accounting Standards Board (GASB), Objectives of Financial Reporting. To accomplish this objective, financial reports must be available in time to inform decision making. Therefore, financial reports should be published as soon as possible after the end of the reporting period.”² (Zielke Decl., Exh. B., p. 26)</p>	<p>The City objects on the grounds that the City’s alleged failure to adhere to the GFOA’s best practices guidelines is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s reference to these guidelines is vague, speculative, and assumes facts not in evidence in that it does not provide specifics as to what procedures would satisfy the guidelines.</p>
<p>When dealing with “unforeseen circumstances,” GFOA recommends that the “financial report preparation process and the independent audit identify items that could affect the amounts reported in the financial statements (e.g., lawsuits; legal or contractual violations that include a monetary penalty; instances of potential or actual fraud or abuse). Considerable time may be needed to definitively resolve such items. In such cases, the inherent uncertainty should not unduly delay the financial report preparation process and the independent audit. Accordingly, it often is better to proceed with the issuance of the financial statements based upon estimates, rather than to delay their issuance.”³ (Zielke Decl., Exh. B., p. 26)</p>	<p>The City objects on the grounds that the City’s alleged failure to adhere to the GFOA’s best practices guidelines is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s reference to these guidelines is vague, speculative, and assumes facts not in evidence in that it does not provide specifics as to what procedures would satisfy the guidelines.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>A&M’s research found that best practices guidelines across various California cities and other cities in the United States include recommendations for the preparation of quarterly and/or monthly financial reports identifying revenues and expenditures (and in some cases encumbrances) to keep decision makers informed about the financial condition of the City. (Zielke Decl., Exh. B., p. 26)</p>	<p>The City objects on the grounds that the City’s alleged failure to adhere to the GFOA’s (or other) best practices guidelines is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s reference to these guidelines is vague, speculative, and assumes facts not in evidence in that it does not provide specifics as to what procedures would satisfy the guidelines.</p>
<p>Examples of the types of content for quarterly and/or monthly financial reports include:</p> <ul style="list-style-type: none"> • Overview of year-to-date discussion on City’s financial performance • Report on investment activity and cash balances by major fund appropriation and/or each fund (Note: Stockton did produce such investment and cash reports in prior fiscal years but not in a timely manner) • Comparison of budget to actual year-to-date revenue collections by major fund appropriation • Comparison of expenditures by major fund appropriation (budget to actual spending-to-date by expense category and by department) • Status of employee position inventory • Status of capital projects • Changes in local economic factors (housing starts, unemployment, sales taxes, change in property values. <p>(Zielke Decl., Exh. B., pp. 26-27)</p>	<p>The City objects on the grounds that the City’s alleged failure to adhere to best practices guidelines, including the inclusion of certain types of content in its financial reports, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s reference to these guidelines is vague, speculative, and assumes facts not in evidence in that it does not provide specifics as to what procedures would satisfy the guidelines.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>We did note, however, that the City staff did prepare a year-to-date actual budget variance report for the City Council dated December 11, 2012. The report was a first step in providing the City Council needed financial information. At the same time, many of the above noted financial reporting components were still missing. (Zielke Decl., Exh. B., p. 27)</p>	<p>The City objects on the grounds that the City’s alleged failure to adhere to best practices guidelines, including the inclusion of certain types of content in its financial reports, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s reference to these guidelines is vague, speculative, and assumes facts not in evidence in that it does not provide specifics as to what procedures would satisfy the guidelines.</p>
<p>Based on my professional experience as a former local government Budget Director and CFO and my discussions with current government finance professionals, I understand that local governments typically close each month’s financial accounting periods within five to ten days after the month’s end. The City is not closing its financial accounting periods in a timely manner and is not producing formal regular budget-to-actual financial performance statements, cash positions, or any of the above identified reports to City Council on a monthly or quarterly basis. (Zielke Decl., Exh. B., p. 27)</p>	<p>The City objects on the grounds that the City’s alleged failure to close each month’s financial accounting period “in a timely manner” or to produce “formal regular budget-to-actual financial performance statements, cash positions, or any of the above . . .” is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>A&M questions how the City Council can understand the City’s financial position without monthly budget-to-actual, fund or cash statement, and similar reports. In fact, when Ms. Burke, the City’s CFO, was asked during her deposition about the current General Fund cash and budget fund balances as of June 30, 2012, and more currently as of October 31, 2012, Ms. Burke was unaware of the balance of these funds. The City’s lack of current or timely financial reports makes it difficult to properly assess the financial condition of the City. (Zielke Decl., Exh. B., p. 27)</p>	<p>The City objects on the grounds that the City’s alleged failure to close each month’s financial accounting period “in a timely manner” or to produce “formal regular budget-to-actual financial performance statements, cash positions, or any of the above . . .” is irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that it does not affect the Court’s determination of the City’s actual insolvency. Fed. R. Evid. 401, 402.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>The Stockton City Council has adopted financial policies establishing minimum target levels of unreserved fund balance to be maintained in the various funds. These policies, adopted in 2006, protect the City’s financial exposure against severe unforeseen emergencies and economic uncertainties and are an important component of the City’s long-term financial management. (Zielke Decl., Exh. B., p. 28)</p>	<p>The City objects on the grounds that the City’s adoption of minimum target levels for unreserved fund balances is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In the City’s “Capital Financing and Debt Management Policy”, the City outlines its general policies for financial management. One important capacity policy is as follows: “The City will carefully monitor its levels of general-purpose debt. In evaluating debt capacity, general purpose supported debt service will not exceed 7% of the total General Fund budgeted expenditures and transfer out.” Likewise, the City is not at risk of exceeding its legal debt limit. Pursuant to California Government Code section 43605, the City has a legal debt (General Obligations only) limitation not to exceed 15% of the total assessed valuation of taxable property. ⁴ (Zielke Decl., Exh. B., p. 28)</p>	<p>The City objects on the grounds that the City’s adoption of general policies for its financial management is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Similarly, the fact that the City is not at risk of exceeding its legal debt limit is also irrelevant to the Court’s eligibility determination. Fed. R. Evid. 401, 402.</p>
<p>At the same time, GFOA⁵ recommends that cities like Stockton also have detailed financial management policies in place to support sustainable and accountable organizations. We did not see where the City had these best practices in place. Without City Council safeguards including these approved policies, there is no basis for long-term and sustainable financial stewardship. Examples of best practices recommend that jurisdictions should have City Council approved policies that address:</p> <ul style="list-style-type: none"> • “Financial Planning Policies. These policies address both the need for a long-term view and the fundamental principle of a balanced budget. 	<p>The City objects on the grounds that the City’s alleged failure to adopt the GFOA’s best practices guidelines is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s reference to these guidelines is vague, speculative, and assumes facts not in evidence in that it does not provide specifics as to what procedures would satisfy the guidelines.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<ul style="list-style-type: none"> • Revenue Policies. Understanding of the revenue stream is essential to prudent planning. These policies seek stability to avoid potential service disruptions caused by revenue shortfalls. • Expenditure Policies. The expenditures of jurisdictions define ongoing public service commitment. Prudent expenditure planning and accountability will ensure fiscal stability.” <p>(Zielke Decl., Exh. B., p. 28)</p>	
<p>Local government best practices that were missing from the City included:</p> <ul style="list-style-type: none"> • Balanced Budget • Long-Range Planning • Asset Inventory • Revenue Diversification • Fees and Charges • Use of One-time Revenues • Use of Unpredictable Revenues • Reserve or Stabilization Accounts • Operating/Capital Expenditure Accountability <p>(Zielke Decl., Exh. B., p. 29)</p>	<p>The City objects on the grounds that the City’s alleged failure to adopt “[l]ocal government best practices” is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s reference to these best practices is vague, speculative, and assumes facts not in evidence in that it does not provide specifics as to what procedures would satisfy the guidelines.</p>
<p>A&M reviewed City budget documents from FY 2001-02 through the proposed FY 2012-13 (baseline budget). As shown in Table 2, from FY 2003-04 to FY 2006-07, the City experienced a \$41.2 million increase in General Fund revenues excluding transfers in and loan repayments. This large increase in revenues, a result of the economic boom in the 2000s, allowed the City to increase General Fund expenses, particularly in employee services, during the same period. (Zielke Decl., Exh. B., p. 29)</p>	<p>The City objects on the grounds that Zielke’s references to the City’s past revenues and expenses are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that they do not bear on the City’s current insolvency. Fed. R. Evid. 401, 402.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>“Table 2 – Historical Comparison General Fund Revenues and Expenditures” (Zielke Decl., Exh. B., p. 29)</p>	<p>The City objects on the grounds that Zielke’s references to the City’s past revenues and expenses are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that they do not bear on the City’s current insolvency. Fed. R. Evid. 401, 402.</p>
<p>During this time period, total expenses increased by \$43.8 million, of which employee services accounted for \$29.4 million or 67% of the increase. (Zielke Decl., Exh. B., p. 30)</p>	<p>The City objects on the grounds that Zielke’s references to the City’s past revenues and expenses are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that they do not bear on the City’s current insolvency. Fed. R. Evid. 401, 402.</p>
<p>During the mid-2000s, Stockton also accumulated a General Fund surplus that enabled the City to begin operating with a small annual revenue deficiency. (Zielke Decl., Exh. B., p. 30)</p>	<p>The City objects on the grounds that Zielke’s references to the City’s past revenues and expenses are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that they do not bear on the City’s current insolvency. Fed. R. Evid. 401, 402.</p>
<p>In FY 2009-10, after the economic crisis hit California, revenues decreased by \$36.2 million. As revenues decreased significantly in FY 2009-10, the City decreased expenditures and cut services to maintain General Fund balances. The City now projects further revenue deficiencies moving forward; however, the City has failed to reduce expenditures at the same rate that revenues declined. (Zielke Decl., Exh. B., p. 30)</p>	<p>The City objects on the grounds that Zielke’s references to the City’s past revenues and expenses are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that they do not bear on the City’s current insolvency. Fed. R. Evid. 401, 402.</p>
<p>We found that the City did transfer monies into the General Fund from other fund appropriations. As shown in Table 3, “budgeted” interfund transfers for the past 12 years, the General Fund used monies from other funds to fund General Fund expenditures. Many of these transfers were interfund loans that had to be repaid at a later date. As the City’s revenue declined beginning in FY 2009-10, the City decreased the amount of funds transferred to the General Fund. (Zielke Decl., Exh. B., p. 30)</p>	<p>The City objects on the grounds that the City’s past revenues and expenses, as well as the City’s transfer of monies between funds, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that it does not bear on the City’s current insolvency. Fed. R. Evid. 401, 402.</p>

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<p>“Table 3 – Comparison of Interfund Transfers to General Fund” (Zielke Decl., Exh. B., p. 30)</p>	<p>The City objects on the grounds that the City’s past revenues and expenses, as well as the City’s transfer of monies between funds, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that it does not bear on the City’s current insolvency. Fed. R. Evid. 401, 402.</p>
<p>In review of major cost drivers for the City’s budget we examined the trends in Personnel Services. The report “Employee Total Compensation - Over \$200,000 Calendar Years 2007, 2008, 2009”⁶ details the compensation structures for those individuals earning in excess of \$200,000 in total compensation⁷ for three years prior. The report showed that:</p> <ul style="list-style-type: none"> • In CY 2007 there were 189 individuals receiving between \$200,000 and \$424,899 in total compensation. These individuals received a combined total of \$41.2 million in total compensation. When comparing this to the FY 2007-08 actual personnel expenses of \$147.1 million, these individuals comprised 28% of the total budget. • In CY 2008 there were 150 individuals with compensation between \$200,000 and \$521,102. These individuals received a combined total of \$34.4 million in total compensation. When comparing this to the FY 2008-09 actual personnel expenses of \$141.0 million, these individuals comprised 24% of the total budget. • In CY 2009 there were 161 individuals with compensation between \$200,000 and \$348,724. These individuals earned a combined total of \$33.1 million in total compensation. When 	<p>The City objects on the grounds that its past employee compensation and benefits packages are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>comparing this to the FY 2009-10 actual personnel expenses of \$126.6 million, these individuals comprised 26% of the total budget.</p> <ul style="list-style-type: none"> Furthermore, when comparing the number of highly compensated individuals in CY 2009 (161) to the total staffing levels in FY 2009-10 (1,103), A&M found that one in seven individuals paid from the Stockton General Fund received over \$200,000 in total compensation. <p>(Zielke Decl., Exh. B., pp. 30-31)</p>	
<p>We note that one of the primary drivers for increased spending over the review period was related to Employee Services. Over 70% of the annual General Fund Employee Services or Personnel spend is related to Public Safety (police and fire departments). The following section provides an overview of the major cost drivers for Public Safety. (Zielke Decl., Exh. B., p. 31)</p>	<p>The City objects on the grounds that its past employee compensation and benefits packages, and the share of City expenses devoted to public safety, are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Table 4 analyzes spending per Full Time Equivalent (“FTE”) across peer cities. Stockton spends a disproportionate amount per public safety employee. The table on the next page lists those peer cities and analyzes the personnel and total spend per FTE for Police and Fire in each City’s FY 2012-13 budget. (Zielke Decl., Exh. B., p. 31)</p>	<p>The City objects on the grounds that its past employee compensation and benefits packages are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s selection of and comparison to “peer cities” is vague, speculative, and assumes facts not in evidence.</p>
<p>“Table 4 – Comparison of Police & Fire Spending per FTE” (Zielke Decl., Exh. B., p. 32)</p>	<p>The City objects on the grounds that its past compensation and benefits packages are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

1 PARAGRAPH OBJECTED TO	 GROUNDS FOR OBJECTION
<p>2 Stockton spends \$9,503 more on total Police 3 spend per FTE than the next highest city and 4 \$7,177 more on Fire spend per FTE than the 5 next highest city. When compared to other peer 6 cities' average personnel spend per FTE, the 7 City spends \$22,013 more on Police and 8 \$37,396 more on Fire. Taking a look at the 9 high spending figures per FTE for the City, it is 10 clear that its costs associated with current 11 employees and retirees are higher than its peers. 12 (Zielke Decl., Exh. B., p. 32)</p>	<p>The City objects on the ground that its police compensation and benefits packages are irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>13 As shown in Table 5, over the past five years, 14 total spending on Police has increased by \$1.5 15 million or 1.5%, while General Fund spending 16 has decreased \$0.2 million or 0.3%. Although 17 spend over the past ifve years has not changed 18 significantly, the City decreased spend until FY 19 2012-13, when it increased its baseline budget 20 by 7.6% for total spending and 11.7% for 21 General Fund spending on Police. (Zielke 22 Decl., Exh. B., p. 32)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>23 Over the same time period, the City has 24 decreased Police FTE by 18.8%, 17.3% for 25 sworn positions and 21.6% for non-sworn 26 positions. The General Fund experienced 128 27 cuts over the past five years, whereas the total 28 FTE has only experienced 127 cuts, as special revenue funds have subsidized extra sworn positions as crime has increased. The additional spending can be explained partially by those special revenue funds, but General Fund spend on police has not decreased as significantly as other budget line items over the past five years even though its FTE count has decreased significantly. (Zielke Decl., Exh. B., p. 32)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>29 "Table 5 – Comparison of City of Stockton 30 Police Department Spending" (Zielke Decl., 31 Exh. B., p. 33)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>As shown in Table 6 on the following page, similar to the above Police analysis, from FY 2008-09 through FY 2012-13, Stockton decreased the number of FTE positions associated with Fire by 33.4%. During the same time period, the City decreased total spend on Fire only by 14.3%. (Zielke Decl., Exh. B., p. 33)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Over the five-year period analyzed, the General Fund spending cuts constituted 93.4% of total spending cuts. From the data it is difficult to understand why the number of personnel cuts increased at a much faster rate than the rate at which expenditures decreased. (Zielke Decl., Exh. B., p. 33)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s statement that this is “difficult to understand” is vague and speculative.</p>
<p>“Table 6 – Comparison of City of Stockton Fire Department Spending” (Zielke Decl., Exh. B., p. 34)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In both the Police and Fire Department spending analysis we question whether the disparity between the percentage of position reductions to overall personnel and total budget spend could be attributed to:</p> <ul style="list-style-type: none"> • Employee wages being annually adjusted at a higher rate than reduction • Increasing employee insurance costs • Adjustments in annual pension payments to CalPERS <p>(Zielke Decl., Exh. B., p. 34)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, the alleged reasons for the difference in percentages of position reductions and total budget reductions are also irrelevant to the Court’s determination. Fed. R. Evid. 401, 402.</p>
<p>In any event, it is difficult for us to understand why the City has decreased positions without decreasing a proportionate amount in spend. What this suggests is that the City still does not have control over the ever-escalating wages and pension benefits of its public safety employees, despite its claims to the contrary. (Zielke Decl., Exh. B., p. 34)</p>	<p>The City objects on the ground that its past spending, including police and firefighter compensation and benefits packages, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, Zielke’s statement that this is “difficult to understand” is vague and speculative.</p>

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<p>Another major cost component in the City’s budget is for pension payments. Over the past five years, the City’s retiree and beneficiary payments have been increasing as both the number of retirees and average amount paid have increased. Not only are the number and amount paid increasing, but these figures are also increasing at an increasing rate in many cases. (Zielke Decl., Exh. B., p. 34)</p>	<p>The City objects on the grounds that the City’s pension payment obligations to retirees are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, to the extent that Zielke states or implies that the City has the legal authority to reduce its pension obligations, the City objects on the grounds that such conclusions are speculative and constitute improper legal conclusions.</p>
<p>Table 7 details the City’s payments to public safety retirees and other retirees. It is important to note that all measures are increasing over time, and the City must find a way to manage the rising payments in the future as all projections show increased costs moving forward as well. (Zielke Decl., Exh. B., p. 34)</p>	<p>The City objects on the grounds that the City’s pension payment obligations to retirees are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, to the extent that Zielke states or implies that the City has the legal authority to reduce its pension obligations, the City objects on the grounds that such conclusions are speculative and constitute improper legal conclusions.</p>
<p>“Table 7 – Comparison of City of Stockton Retiree & Beneficiary Payments” (Zielke Decl., Exh. B., p. 35)</p>	<p>The City objects on the grounds that the City’s pension payment obligations to retirees are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, to the extent that Zielke states or implies that the City has the legal authority to reduce its pension obligations, the City objects on the grounds that such conclusions are speculative and constitute improper legal conclusions.</p>
<p>Prior to Chapter 9, the City made no effort to seek from CalPERS a reduction or modification of its PERS liability. By letter dated December 4, 2012, the City finally made a request for hardship funding extension. We estimate that the granting of such a request could save the City approximately \$4.5 million over the next three fiscal years.⁸ (Zielke Decl., Exh. B., p. 35)</p>	<p>The City objects on the grounds that the City’s pension payment obligations to retirees are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, to the extent that Zielke states or implies that the City has the legal authority to reduce its pension obligations, the City objects on the grounds that such conclusions are speculative and constitute improper legal conclusions. Finally, to the extent Zielke implies or states that the City has not</p>

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	<p>satisfied the negotiation requirement of section 109(c)(5) because it “made no effort to seek from CalPERS a reduction or modification of its PERS liability,” such a conclusion is also an improper legal conclusion.</p>
<p>Although the City’s economy is underperforming in comparison to the United States as a whole, and although the City’s history of poor decision making has constrained its ability to drive revenue growth moving forward, there are signs that the local economy is improving, particularly in the past 12 months. (Zielke Decl., Exh. B., p. 35)</p>	<p>The City objects on the grounds that Zielke’s statements as to alleged signs of recent improvement in the City’s economy are vague, speculative, and assume facts not in evidence. Moreover, such statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that Zielke makes no showing that such recent improvement affects the analysis of the City’s current insolvency.</p>
<p>An important indicator of the stability in local government funds is the price of homes in that locality. As the price of homes fell in the late 2000s, Stockton and other municipalities were significantly affected, as property taxes are the largest revenue source for many local governments. According to data issued by the California Association of Realtors, the median price for a single-family home in San Joaquin County—where Stockton is the largest city—in October 2012 was \$179,570, up 14.6% from \$156,710 in October 2011.⁹ Although this is far from the peak-level prices experienced the 2000s, this increasing figure is important in driving revenue growth moving forward. Along with the increase in home sales, the median time on the market for single-family homes in San Joaquin County decreased from 38.7 days to 23.1 days, meaning homes were sold at a significantly faster pace than the previous year. Even though an analysis of Stockton’s economic conditions reveals hardships at a local level, recent data shows that efforts to stimulate the economy are beginning to show signs of success, and the outlook ahead is more favorable. (Zielke Decl., Exh. B., p. 36)</p>	<p>The City objects on the grounds that Zielke’s statements as to alleged signs of recent improvement in the City’s economy are vague and speculative. Moreover, such statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that Zielke makes no showing that such recent improvement affects the analysis of the City’s current insolvency.</p>

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<p>According to RealtyTrac,¹⁰ a leading online marketplace for foreclosure properties, Stockton currently has the highest foreclosure rate in the United States, as one in 67 of its households was subject to a foreclosure filing in the third quarter of 2012. This figure, three times the national average, illustrates the lack of stability in the housing market and the difficulties that Stockton’s citizens are currently facing. The figure also demonstrates the improving economic climate, however, as it is 21% lower than the previous year. In the mid-year report issued by RealtyTrac in July, one in every 38 of Stockton’s housing units was subject to foreclosure filing in the first half of 2012. This figure, although still the highest in the nation, decreased 13% from the previous six months and decreased 16% from the first half of 2011. The foreclosure data for the City of Stockton clearly show that the City continues to face difficulties, but at the same time shows encouraging signs as the City’s economy appears to be improving significantly and recovering from historic lows. (Zielke Decl., Exh. B., p. 36)</p>	<p>The City objects on the grounds that Zielke’s statements as to alleged signs of recent improvement in the City’s economy are vague and speculative. Moreover, such statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that Zielke makes no showing that such recent improvement affects the analysis of the City’s current insolvency.</p>
<p>Another key indicator of economic performance, the unemployment rate, calculates the percentage of the total workforce that is unemployed but actively seeking employment and is a closely watched lagging indicator. As a lagging indicator, the unemployment rate is used to confirm trends in the economy. Below is a graph showing the 2012 unemployment rate for Stockton, California, issued by the U.S. Bureau of Labor Statistics:¹¹ (Zielke Decl., Exh. B., p. 37)</p>	<p>The City objects on the grounds that Zielke’s statements as to alleged signs of recent improvement in the City’s economy are vague and speculative. Moreover, such statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that Zielke makes no showing that such recent improvement affects the analysis of the City’s current insolvency.</p>

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<p>2 “Table 8 – Stockton Unemployment Rate – 3 Calendar Year (CY) 2012” (Zielke Decl., Exh. 4 B., p. 37)</p>	<p>The City objects on the grounds that Zielke’s statements as to alleged signs of recent improvement in the City’s economy are vague and speculative. Moreover, such statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that Zielke makes no showing that such recent improvement affects the analysis of the City’s current insolvency.</p>
<p>7 As shown in Table 8, Stockton’s unemployment 8 rate has decreased significantly in the past ten 9 months. Although the City’s rate is still high 10 compared to the United States rate in October 11 2012, 7.9%, the decline of Stockton’s 12 unemployment rate demonstrates increasing 13 stability in the local economy and a favorable 14 outlook for the future. Another important 15 statistic used to determine the current state of 16 the economy is the Nonfarm Payroll, which 17 calculates the number of jobs for paid workers 18 excluding general government employees, 19 private household employees, and employees of 20 nonprofit organizations that provide assistance 21 to individuals and farm employees. Table 9 22 shows the increasing number of jobs in 23 Stockton in CY 2012. As the number of jobs 24 increases and the unemployment rate decreases, 25 the City of Stockton should be able to increase 26 and further stabilize revenues moving forward. 27 (Zielke Decl., Exh. B., p. 37)</p>	<p>The City objects on the grounds that Zielke’s statements as to alleged signs of recent improvement in the City’s economy are vague and speculative. Moreover, such statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that Zielke makes no showing that such recent improvement affects the analysis of the City’s current insolvency.</p>
<p>20 “Table 9 – Employment, Hours, and Earnings – 21 CY 2012” (Zielke Decl., Exh. B., p. 38)</p>	<p>The City objects on the grounds that Zielke’s statements as to alleged signs of recent improvement in the City’s economy are vague and speculative. Moreover, such statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in that Zielke makes no showing that such recent improvement affects the analysis of the City’s current insolvency.</p>
<p>25 As revenues continue to decrease for 26 municipalities in California, voters have 27 become increasingly willing to support local tax 28 and bond measures. In the November 2012 election, 71% of local tax and bond measures and 80% of city general tax measures passed on</p>	<p>The City objects on the ground that Zielke’s statements as to the willingness of voters in other jurisdictions to support local tax and bond measures are vague and speculative as to their specific application to the City’s citizens. Moreover, Zielke’s implication that</p>

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<p>election night across California.¹² (Zielke Decl., Exh. B., p. 38)</p>	<p>the City’s citizens would have voted to pass the multiple new tax increases outlined in the Alternative Model is pure speculation. Finally, the fact that the City did not seek to place all of the tax measures listed in the Alternative Model up for a vote is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In total, 171 cities and counties in the state passed tax and bond measures. According the National League of Cities, “the willingness of cities to embrace tax increases comes on the heels of six straight years of declining revenue.”¹³ (Zielke Decl., Exh. B., p. 38)</p>	<p>The City objects on the ground that Zielke’s statements as to the willingness of voters in other jurisdictions to support local tax and bond measures are vague and speculative as to their specific application to the City’s citizens. Moreover, Zielke’s implication that the City’s citizens would have voted to pass the multiple new tax increases outlined in the Alternative Model is pure speculation. Finally, the fact that the City did not seek to place all of the tax measures listed in the Alternative Model up for a vote is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In the City of Sacramento, for example, voters passed a measure to increase the sales tax by 0.5% to 8.25%. Sacramento had decreased its officers and civilian staff by over 300 employees since 2008. As a result of the tax increase, Sacramento is expected to raise an additional \$28 million that can be used to increase services, reversing previous cuts from a budget that has been cut by over 30% since 2008.¹⁴ With Stockton’s combined sales tax rate is currently at 8.0% and facing budget challenges moving forward, a sales tax increase would be an effective means to increase revenue immediately in order to continue providing essential services to its citizens. (Zielke Decl., Exh. B., p. 38)</p>	<p>The City objects on the ground that Zielke’s statements as to the willingness of voters in other jurisdictions to support local tax and bond measures are vague and speculative as to their specific application to the City’s citizens. Moreover, Zielke’s implication that the City’s citizens would have voted to pass the multiple new tax increases outlined in the Alternative Model is pure speculation. Finally, the fact that the City did not seek to place all of the tax measures listed in the Alternative Model up for a vote is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>2 A&M did not find where the City performed 3 any survey of prioritization of city services to 4 determine what services are essential versus 5 services that are nonessential for citizens. 6 When revenues become tight for organizations, 7 common industry practice is to prioritize those 8 essential services that may be required by 9 federal or state statute and ensure those services 10 are funded. Nonessential services generally 11 include programs like the arts, recreation and 12 recreational facilities, business support, 13 entertainment venues, and non-response public 14 safety services (e.g., funeral escorts and special 15 event security). (Zielke Decl., Exh. B., p. 39)</p>	<p>The City objects on the ground that Zielke’s statement that she did not find “where the City performed any survey of prioritization of city services” to determine “essential” versus “nonessential” services is vague and speculative as to the meaning of those terms. Moreover, the fact that the City allegedly did not undertake such a survey is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, the fact that the City did not adopt the delineation between essential and nonessential services that Zielke herself proposes is also irrelevant to the Court’s determination. Fed. R. Evid. 401, 402.</p>
<p>11 While the City Manager did require 12 departments to produce budget reduction 13 scenarios of 5-10-15% with the FY 2012-13 14 budget, we did not see any direction to the 15 departments in prioritizing mandatory versus 16 non-mandatory or essential versus nonessential 17 services. In fact, the budget instructions to 18 Departments from January 2012 simply asked 19 Department heads to submit three different 20 percentage reduction proposals based on target allocations. Written guidance or direction via the budget instructions memo was not provided from the Chief Financial Officer on what specific programs or activities should be targeted for reduction. (Zielke Decl., Exh. B., p. 39)</p>	<p>The City objects on the ground that Zielke’s statement that she “did not see any direction to the departments” to prioritize between “mandatory” and “non-mandatory” services is vague and speculative as to the meaning of those terms. Moreover, the fact that the City allegedly did not offer such direction is also vague and speculative, and is in any case irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Moreover, the fact that the City did not adopt the delineation between mandatory and nonmandatory (or essential versus nonessential) services that Zielke herself proposes is also irrelevant to the Court’s determination. Fed. R. Evid. 401, 402.</p>
<p>21 A&M also did not see where the City 22 performed any zero-based budgeting or critical 23 review of program spending. Departments 24 prepared across the budget reduction options 25 without clear direction on priorities or areas for 26 cost reductions. Given its fiscal uncertainty, the 27 City should have exercised some type of 28 strategic budget review and planning process to determine priorities and calculate what the City could afford. (Zielke Decl., Exh. B., p. 39)</p>	<p>The City objects on the grounds that Zielke’s statement that the City did not perform any “critical review” of program spending is vague, speculative, and assumes facts not in evidence. Moreover, such conclusion is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Zielke’s conclusion that the City did not perform zero-based budgeting is also irrelevant to the Court’s determination, as the City was not required to do so. Furthermore, this has no bearing on the City’s actual insolvency. Fed. R. Evid. 401,</p>

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<p>2</p> <p>3 A recently published GFOA white-paper</p> <p>4 entitled “Zero-Based Budgeting Modern</p> <p>5 Experiences and Current Perspectives”¹⁵</p> <p>6 outlines approaches available for governments</p> <p>7 to develop budgets, especially during times of</p> <p>8 fiscal distress: (Zielke Decl., Exh. B., p. 40)</p>	<p>402.</p> <p>The City objects on the grounds that Zielke’s application of GFOA practice standards to the City’s particular situation is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to adopt such practices is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>8 “GFOA: Fiscal First Aid – Three Essential</p> <p>9 Questions of Planning and Budgeting” (Zielke</p> <p>10 Decl., Exh. B., p. 40)</p>	<p>The City objects on the grounds that Zielke’s application of GFOA practice standards to the City’s particular situation is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to adopt such practices is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>13 A&M did not see where the City deployed</p> <p>14 strategic planning or review processes in the</p> <p>15 development of its most recently adopted</p> <p>16 budget. The primary measures the City used to</p> <p>17 balance the FY 2012-13 budget through the</p> <p>18 Pendency Plan included reducing employee</p> <p>19 wage benefits and additional pay categories,</p> <p>20 reducing retiree health care, and eliminating</p> <p>21 payments on the City’s existing General Fund-</p> <p>22 supported debt. (Zielke Decl., Exh. B., p. 40)</p>	<p>The City objects on the grounds that Zielke’s statement that she “did not see where the City deployed strategic planning or review processes in the development of its most recently adopted budget” is vague, and assumes facts not in evidence. Moreover, such statement is pure speculation, and improperly attempts to imply that the City undertook no analysis to attempt to avoid insolvency without directly making such a statement. In any case, Zielke’s statements are irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>22 There was not a defined process or community-</p> <p>23 wide plan to critically review services and</p> <p>24 programs. The City has now indicated, post</p> <p>25 bankruptcy filing, that it is now considering</p> <p>26 new measures such as selling surplus property,</p> <p>27 examining efficiency measures, and reviewing</p> <p>28 opportunities for increased revenues. However,</p> <p>these measures should have been considered <i>prior</i> to the adoption of the Pendency Plan and the bankruptcy filings. (Zielke Decl., Exh. B., p. 40)</p>	<p>The City objects on the grounds that Zielke’s statement that there was not a “defined process or community-wide plan to critically review services and programs” is vague, assumes facts not in evidence, and is speculative in that it implies that the City undertook no analysis to attempt to avoid insolvency without directly making such a statement. Moreover, Zielke’s conclusion that steps taken by the City should have been taken earlier are irrelevant to the Court’s determination of the City’s eligibility for</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>GFOA has prepared a set of recommended practices for governments dealing with challenging times. In its “Fiscal First Aid¹⁶ Strategy”, it advises local governments that “when afflicted with financial distress, public managers first need to stabilize the ailing government. Fiscal first aid techniques can be used to stop the bleeding and provide immediate relief. Cases of more severe distress may not be completely resolved by fiscal first aid, but fiscal first aid can provide a short-term respite and time to develop more permanent treatments. In less severe cases of financial distress, fiscal first aid alone may be sufficient.”¹⁷ (Zielke Decl., Exh. B., pp. 40-41)</p>	<p>chapter 9. Fed. R. Evid. 401, 402.</p> <p>The City objects on the grounds that Zielke’s application of GFOA practice standards to the City’s particular situation is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to adopt such practices is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In reviewing the GFOA First Fiscal Aid Strategy, A&M found many “first line defenses” that Stockton did not consider in the preparation of the FY 12-13 budget presentation, during the AB 506 process, or in the submission of the Pendency Plan. Examples of these “defenses” include:</p> <p>Revenue Strategies</p> <ul style="list-style-type: none"> • Audit revenue sources • Standardize the billing and collection procedures • Coordinate collection efforts between agencies, particularly the courts and county agencies • Outsource revenue collections (parking, taxes, etc.) to a private vendor • Consolidate collections with a special purpose unit to achieve standardization and consistency • Implement an amnesty program for past-due fees • Propose taxes with a strong nexus <p>Expense Opportunities</p>	<p>The City objects on the grounds that Zielke’s application of any or all of the GFOA practice standards to the City’s particular situation is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to adopt such practices is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<ul style="list-style-type: none"> • Evaluate overtime use • Address health care costs and workers' compensation claims patterns • Review all positions for duplication of duties, accuracy of job descriptions, and compliance with FLSA • Review the use of consultants, temporary staff, and volunteers to reduce the benefit-burden rates • Evaluate internal controls including the use of petty cash, approval levels for purchases, and separation of disbursement • Consolidate departments where it makes sense to reduce overhead • Evaluate supervisor to front-line employee ratios • Investigate risk management (workers' compensation claims patterns) 	
<p>Other Financial Strategies</p>	
<ul style="list-style-type: none"> • Audit certain recurring expenditures • Divest loss-generating enterprises • Seek state, federal, and/or regional assistance • Identify sources of liquidity • Make managers manage • Enhance purchasing practices • Pursue inter-organizational cooperation or agreements • Revisit control systems • Establish a culture of frugality • Pool department resources • Sell underutilized assets 	

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<ul style="list-style-type: none"> • Implement a reduction in force (RIF) for non-public safety employees • Defer and/or cancel capital projects, maintenance, and/or replacement • Revisit interfund transfer policies and program subsidies • Reevaluate managed competition and outsourced program operations • Refinance debt for lower interest rates or extension of obligations. We did not see any reports or studies where the City Manager presented to City Council or discussed with bondholders alternatives for refinancing the City’s existing debt service • Evaluate financial condition - GFOA best practices promote that cities in distress should evaluate their financial conditions and develop “key indicators of financial condition and benchmarking data like employee’s per capita, overtime spending ratios, benefit costs, claims costs” • Inventory programs and ascertain its costs - A&M did not find where the City developed a “comprehensive inventory of programs” to identified unproductive or nonessential programs. This is a “crucial pre-requisite” to budgeting by priorities “which is essential to long-term fiscal health and should be a central mid-term goal for any distressed government” (Zielke Decl., Exh. B., pp. 41-42) 	
The City’s department heads and managers	The City objects on the grounds that Zielke’s

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<p>must be held accountable for managing their budgets within expected guidelines. We found several best practices where city department heads who do not stay within budget must present to their City Council a detailed explanation as to why they are not following their budget. In many cases, we found governments who prepare an Action Plan to provide updates until the situation is well under control. (Zielke Decl., Exh. B., p. 43)</p>	<p>application of “several best practices” to the City’s particular situation is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to adopt such practices is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402. Finally, Zielke’s statement that “[t]he City’s department heads and managers must be held accountable for managing their budgets within expected guidelines” is also vague, speculative, assumes facts not in evidence, and is irrelevant to the Court’s determination.</p>
<p>A&M examined strategies used by other cities across California and the United States related to successful budget balancing strategies to avoid bankruptcy. Two very unique and successful strategies included those used by the City of San Jose, California and the City of Kalamazoo, Michigan, which were both able to develop an expenditure reduction plan through evaluation of essential and nonessential services in conditions similar to those faced by Stockton. (Zielke Decl., Exh. B., p. 43)</p>	<p>The City objects on the grounds that Zielke’s application of strategies used by other cities to the City’s specific situation is vague, speculative, and assumes facts not in evidence (including the level of similarity between such cities and the City). Moreover, the City’s alleged failure to adopt such strategies is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>At the close of FY 2010, the City of San Jose was faced with a budget deficit of nearly \$115 million, largely due to skyrocketing costs of retirement benefits and pension contributions; nearly 50% of the deficit was attributed to such costs. To close that deficit, the City Manager proposed an operating budget for FY 2011 that resulted in cuts to both essential and nonessential services alike, despite outside pressure from community activists and union advocates. In addition, because personnel expenses accounted for nearly 70% of spending in the previous budget cycle, 588 positions were eliminated in order to close the gap. In tandem with these budget-slashing efforts, the City sought a 10% wage decrease across the board for public-sector employees in order to preserve jobs and reduce the proposed cuts in the FY 2011-12 operating budget. (Zielke Decl., Exh. B., p. 43)</p>	<p>The City objects on the grounds that Zielke’s application of strategies used by other cities to the City’s specific situation is vague, speculative, and assumes facts not in evidence (including the level of similarity between such cities and the City). Moreover, the City’s alleged failure to adopt such strategies is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>The Budget office likewise called for public service providers to discover new efficiencies in their respective departments and privatized some functions that had previously been reserved for public sector employees. Many of the cuts were identified as being “tough” on residents of the city, but necessary nonetheless. They included rolling “brown-outs” of fire stations, reduction of police manpower, reduction of park hours and routinized park maintenance schedules, and revocation of funding for services for seniors and at-risk youth. Most poignantly, San Jose, which had massively developed its library system in recent years, limited the number of hours and days those libraries are opened, and created open hour “shifts” throughout the system. Some recently constructed libraries still have yet to open. (Zielke Decl., Exh. B., pp. 43-44)</p>	<p>The City objects on the grounds that Zielke’s application of strategies used by other cities to the City’s specific situation is vague, speculative, and assumes facts not in evidence (including the level of similarity between such cities and the City). Moreover, the City’s alleged failure to adopt such strategies is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>One of the greatest lessons to learn from San Jose is the practice the City took with its labor negotiations. The City managed, while under open contracts, for bargaining groups to build consortiums to allow the City to manage benefit structures. This allowed the City to lower its personnel costs through negotiations with its labor groups and stakeholder input. By proactive leadership, the City has entered FY 2012-13 with a \$9 million surplus, and City did not have to enter into the AB 506 process or file bankruptcy. (Zielke Decl., Exh. B., p. 44)</p>	<p>The City objects on the grounds that Zielke’s application of strategies used by other cities to the City’s specific situation is vague, speculative, and assumes facts not in evidence (including the level of similarity between such cities and the City). Moreover, the City’s alleged failure to adopt such strategies is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>A recent case of a local government that developed a collaborative and consolidated services plan is the City of Kalamazoo, Michigan.¹⁸ The City worked in partnership with Kalamazoo County and the City of Portage to develop a transparent blueprint to drive financial and operational efficiencies. Like California, the state of Michigan has suffered from economic erosion over the past decade, with the Kalamazoo area experiencing poverty, a high foreclosure rate, and declining revenues. The Kalamazoo had to explore alternative avenues to create efficiencies while continuing to provide quality public services. Major</p>	<p>The City objects on the grounds that Zielke’s application of strategies used by other cities to the City’s specific situation is vague, speculative, and assumes facts not in evidence (including the level of similarity between such cities and the City). Moreover, the City’s alleged failure to adopt such strategies is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>initiatives included:</p> <ul style="list-style-type: none"> • Public safety collaboration • Administrative collaboration • Employee reductions and consolidations • Use of technology • Use of new and expanded partnerships • Physical plan resource consolidations • Personnel cost control • New services consolidation <p>(Zielke Decl., Exh. B., pp. 44-45)</p>	
<p>In total, the City of Kalamazoo saved over \$11.5 million by implementing the strategies listed above. A&M did not see where Stockton demonstrated a willingness to engage in any similar measures in their development of the FY 2012-13 Budget and Pendency Plan, prior to its bankruptcy filing. (Zielke Decl., Exh. B., p. 45)</p>	<p>The City objects on the grounds that Zielke’s application of strategies used by other cities to the City’s specific situation is vague, speculative, and assumes facts not in evidence (including the level of similarity between such cities and the City). Moreover, the City’s alleged failure to adopt such strategies is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In its review of the City’s baseline budget model, A&M built its recommendations based on its own internal expertise in city management deficit reduction plans and its peer analysis of cities in similar situations to Stockton. We analyzed the decisions the City could have and should have made before it filed bankruptcy. We also identified the many opportunities that would have allowed and would continue to allow the City to build a sustainable growth model for future years. (Zielke Decl., Exh. B., p. 45)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted all of the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence because the Alternative Model itself depends upon numerous unsupported assumptions (including the City’s ability to pass additional substantial budget cuts while continuing to provide necessary services and the willingness of City voters to support multiple new tax increases while still reducing services). Moreover, the fact that the City did not adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
	to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
<p>Taking a look at the City’s revenue enhancement opportunities, the City had failed to propose additional taxes even though it had seen the successes of other cities in California. It failed to identify any additional revenues and cash infusions based on the sale of assets. Looking at the City’s expenditures, the City never made the tough decisions to eliminate nonessential services and failed to revise or restructure any of its current contracts in labor friendly agreements that would allow the City to better manage its payments moving forward. The City also did not look at specific opportunities to consolidate, privatize or share services across the City. (Zielke Decl., Exh. B., p. 45)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted all of the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence because the Alternative Model itself depends upon numerous unsupported assumptions (including the City’s ability to sell various City assets for a reasonable price). Zielke’s conclusions that the City did not “[make] tough decisions to eliminate nonessential services,” “restructure any of its current contracts,” or consider “opportunities to consolidate, privatize or share services,” are all vague, speculative, and assume facts not in evidence (while also ignoring facts that are in evidence). Moreover, the fact that the City allegedly did not adopt these measures, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>The City’s repeated lack of action to streamline costs, cut nonessential services, outsource operations, sell or privatize underutilized city assets, and increase revenues worsened a manageable problem. The City left millions of dollars on the table in terms of additional budget efficiencies and revenue enhancements that could be achieved outside of bankruptcy without jeopardizing public safety. (Zielke Decl., Exh. B., p. 45)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City’s alleged “repeated lack of action . . . worsened a manageable problem” is vague, speculative and assumes facts not in evidence. Moreover, such conclusions are irrelevant to the Court’s determination of the City’s eligibility for chapter 9 in any case, because they do not bear on the determination of the City’s actual insolvency. Fed. R. Evid. 401, 402.</p>
<p>The City presented a budget that maintains flat revenue growth in FY 2012-13 with baseline budget and fiscal stability additions that increase expenditures by \$25.1 million. Furthermore, the City has presented no new revenue increases in FY 2012-13. Our financial budget alternatives identify a number of initiatives that should both increase the revenues and reduce the expenses going</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted all of the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence because the Alternative Model itself depends upon numerous unsupported assumptions (including the City’s ability to pass</p>

1 PARAGRAPH OBJECTED TO	 GROUNDS FOR OBJECTION
2 forward, enabling a return to financial strength. 3 The series of revenue enhancements that we 4 identify are targeted to increase total revenues 5 by an additional \$9.6 million to \$35.6 million 6 over the next three years. (Zielke Decl., Exh. 7 B., p. 46)	additional substantial budget cuts while continuing to provide necessary services and the willingness of City voters to support multiple new tax increases while still reducing services). Moreover, the fact that the City did not adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
8 We are also recommending a series of expense 9 reductions to decrease costs by \$24.4 million in 10 FY 2012-13, bringing them under the projected 11 revenues. The expense reductions fall into five 12 categories including department budget 13 reductions designed to save \$8.9 million in FY 14 2012-13, restructuring of employee and 15 personnel benefits designed to save \$12.0 16 million, revised contract payments and loan 17 debt savings of \$0.7 million, and removal of the 18 fiscal stability measures that add back \$2.9 19 million. The net results of these fiscal improvements increase the current fund balance from \$6.1 million to \$15.1 million by the end of FY 2012-13 with continued improvement in each successive year. (Zielke Decl., Exh. B., p. 46)	The City objects on the grounds that Zielke’s conclusion that the City could have adopted all of the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence because the Alternative Model itself depends upon numerous unsupported assumptions (including the City’s ability to pass additional substantial budget cuts while continuing to provide necessary services and the willingness of City voters to support multiple new tax increases while still reducing services). Moreover, the fact that the City did not adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
20 The Alternative Model is based on Stockton’s 21 baseline budget and incorporates four 22 adjustments detailed in the September 11, 2012 23 budget amendment. The amendments included 24 a \$162,000 increase in general expenses, a 25 \$300,000 reduction in the library and 26 recreational subsidies, a \$150,000 reduction in 27 other program support, and a \$533,000 increase 28 in property tax revenues. (Zielke Decl., Exh. B., p. 46)	The City objects on the grounds that Zielke’s conclusion that the City could have adopted all of the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence because the Alternative Model itself depends upon numerous unsupported assumptions (including the City’s ability to pass additional substantial budget cuts while continuing to provide necessary services and the willingness of City voters to support multiple new tax increases while still reducing services). Moreover, the fact that the City did not adopt the measures included

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	<p>in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 1 – Summary of Revised Baseline Budget Alternative Model” (Zielke Decl., Exh. B., p. 47)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted all of the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence because the Alternative Model itself depends upon numerous unsupported assumptions (including the City’s ability to pass additional substantial budget cuts while continuing to provide necessary services and the willingness of City voters to support multiple new tax increases while still reducing services). Moreover, the fact that the City did not adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In reviewing Stockton’s baseline FY 2012-13 budget, A&M did not find any discussion, proposal, or analysis of proposed revenue increases to the General Fund for FY 2012-13 and future year budgets. Potential opportunities to increase General Fund revenues include:</p> <ol style="list-style-type: none"> 1. Local Retail Sales Tax 2. Utility User Tax 3. Transient Occupancy Tax Increase 4. Parcel Tax 5. Various Emergency Service Recovery Fees 6. Other opportunities (not included in model) <ol style="list-style-type: none"> a. 911 Fees b. Unrealized State Grant Opportunities 	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted all of the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence because the Alternative Model itself depends upon numerous unsupported assumptions (including the City’s ability to pass additional substantial budget cuts while continuing to provide necessary services and the willingness of City voters to support multiple new tax increases while still reducing services). Moreover, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>c. Privatization and/or Sale of under-utilized assets and property</p> <p>d. Countywide sales tax for Library Services</p> <p>(Zielke Decl., Exh. B., p. 47)</p>	
<p>By California statute (Proposition 218), cities such as Stockton must obtain voter approval for any tax increase. A&M’s research findings indicate that many cities across California have increased General Fund revenues over the past several years through tax-approval measures with overwhelming public support. (Zielke Decl., Exh. B., p. 48)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Table 10 shows information reviewed from the California Local Government Finance Almanac¹⁹ on November 6, 2012. Unaudited election returns indicated that 171 of the 240 tax measures passed. (Zielke Decl., Exh. B., p. 48)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given</p>

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	respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
<p>“Table 10 – California Referendum Results – November 2012” (Zielke Decl., Exh. B., p. 48)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>To increase revenues, cities have the opportunity to establish a sales tax in addition to the state sales tax. Currently in California, the basic statewide sales and use tax rate is 7.25% and is divided as follows:</p> <ul style="list-style-type: none"> • 6.25% for State • 0.75% for Local Jurisdiction (County or City) • 0.25% for Local Transportation Fund²⁰ <p>(Zielke Decl., Exh. B., p. 48)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>Stockton’s current sales tax is 8.0%, (0.75% above the basic statewide rate). Additional proceeds from that increased rate go to fund various City programs and the General Fund. (Zielke Decl., Exh. B., p. 49)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>If the City of Stockton were to raise its sales tax 0.5%, the City Manager has noted that the increase could yield \$4.5 million in increased revenues in FY 2012-13, and approximately \$18 million each year after. In 2010, a Stockton open survey reported that the majority of voters would approve a 0.25% increase in sales tax.²¹ Most recently, the City issued a survey on September 16-18, 2012 and 64% of the voters agreed that they would vote in favor of a half-cent sales tax measure.²² (Zielke Decl., Exh. B., p. 49)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicates that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>Utility User Taxes (“UUTs”) in California are taxes that cities impose on the consumption of certain utility services. About 146 California cities and four counties have a UUT.²³ Recent UUT ballot measures in Table 11, which passed and generated more revenue for the localities under Proposition 218 are listed below: (Zielke Decl., Exh. B., p. 49)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicates that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 11 – Recent Utility User Tax Ballot Measures” (Zielke Decl., Exh. B., p. 49)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicates that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Since 1969, the City of Stockton has imposed a Utilities User Tax on its utilities customers. In 2008, the percentage tax was reduced from 8% to 6%.²⁴ During the same year, Stockton voters also approved Measure U, which extended the UUT rate of 6% for future years and covered additional telecommunications charges such as text-messaging and paging.²⁵ (Zielke Decl., Exh. B., p. 50)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
	instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
If Stockton were to return to its rate of 8%, it would yield approximately \$10 million in additional revenues. (Zielke Decl., Exh. B., p. 50)	The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
Many cities across California have established a Transient Occupancy Tax (“TOT”), or a “Hotel Tax”, to capture revenues from the tourism, travel, hospitality, and business industries. Stockton uses 100% of its TOT for the General Fund. As shown in Table 12, Stockton’s current TOT rate is only 8.0% compared to an average of 10.1% for seven peer cities. An increase to the current rate would require a public referendum by the citizens of Stockton. (Zielke Decl., Exh. B., p. 50)	The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
	evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
<p>“Table 12 – Transient Occupancy Tax Revenues – Comparable Cities” (Zielke Decl., Exh. B., p. 50)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>The current rate of 8.0% generates approximately \$1.8 million annually in General Fund revenues. A 2.0% increase (based on voter approval) would generate an additional \$452,000 based annually on eligible taxable hotel guest receipts of \$22.6 million. (Zielke Decl., Exh. B., p. 50)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given</p>

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	respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
<p>After Proposition 13 passed in 1978, some local governments began imposing a new type of property tax not tied to the assessed value of a parcel. As shown in Table 13, Stockton currently does not levy a Parcel Tax; however, some peer cities currently have a Parcel Tax in place: (Zielke Decl., Exh. B., p. 51)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 13 – Peer Parcel Taxes” (Zielke Decl., Exh. B., p. 51)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>The San Joaquin County Mapping Department has identified 83,256 parcels in Stockton. If Stockton were to establish a parcel tax implemented at the same rate as Vallejo (\$48), the City could increase revenues by as much as \$3.9 million. Such a tax should be dedicated for specific program purposes, such police or fire services or community support programs such as library services. (Zielke Decl., Exh. B., p. 51)</p>	<p>The City objects on the grounds that Zielke’s implication and conclusion that support for tax-approval measures in other jurisdictions indicate that the City’s own voters would vote to pass multiple new tax increases while the City continued to cut services are highly speculative, vague, and assume facts not in evidence. Moreover, Zielke’s implication that the City could adopt all of these tax increases without secondary effects (for instance, that an increase in the City’s sales tax would not lead to the loss of sales to neighboring municipalities) is also speculative, vague, and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Cities and fire departments continue to seek ways to avoid increasing taxes and/or decreasing levels of service.²⁶ One such measure being adopted to defray emergency response costs is filing insurance claims against the at-fault driver in motor vehicle incidents. Stockton Government Code 3.48.020 established an emergency response cost recovery program, which allows for the collection of emergency response costs from at-fault drivers. The City is currently recovering emergency costs; however, it can increase revenues by adding more cost recovery programs. (Zielke Decl., Exh. B., p. 51)</p>	<p>The City objects on the grounds that the City’s ability to implement the recommendation to file insurance claims, as well as the likely benefit of doing so, is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Stockton has the ability to “recover” additional costs for emergency services through programs that companies like Fire Recovery USA have established, such as:</p> <ul style="list-style-type: none"> • Structure Fires • Fire Investigation • Special Rescues 	<p>The City objects on the grounds that the City’s ability to recover the costs of emergency services, as well as the likely benefit of doing so and the likelihood of citizen support for fees that would likely impact the victims of such emergencies, is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City allegedly did not discuss or adopt the</p>

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<ul style="list-style-type: none"> • Water Incidents • Fire Prevention Inspections and Permit Billing <p>(Zielke Decl., Exh. B., p. 51)</p>	<p>measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>There are more than 50 other Cities such as Pinole, Upland, Sacramento and Oakland that have implemented many cost recovery programs Fire Recovery USA offers.²⁷ If Stockton were to begin all of these programs listed above they could generate approximately \$1.6 million in cost savings.²⁸ Stockton has the ability to establish many of these programs through City Council actions that would enable it to begin generating additional revenue shortly thereafter. (Zielke Decl., Exh. B., p. 52)</p>	<p>The City objects on the ground that Zielke’s application of the experiences of other municipalities to the City’s specific situation is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City did not adopt these measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>A&M also identified several revenue opportunities for the City’s General Fund including reinstating the 911 Fees, seeking other State and Federal Grants, one-time revenue from the sale or privatization of underutilized assets, and a countywide sales tax for Library Services. (Zielke Decl., Exh. B., p. 52)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted the budget cuts and revenue enhancement measures imposed by the Alternative Model is highly speculative, vague, and assumes facts not in evidence. Moreover, Zielke’s presumption that the City could impose these new fees without detrimental secondary effects (for instance, with regard to imposing a 911 fee in a municipality with the City’s crime rate) is also speculative and assumes facts not in evidence. Finally, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>California law obligates cities to maintain a 911 system; however, this program is largely unfunded and costly to California cities. Many cities across California have turned to an emergency communication system response access fee, known as a 911 Fee, to fund their respective systems. (Zielke Decl., Exh. B., p. 52)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted a 911 fee, and that such fee would not have detrimental secondary effects, is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model,</p>

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	whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
<p>In 2004, Stockton established section VII of chapter 8 of the Stockton Municipal Code, which created the Emergency Communication System Access Fee. The purpose was to maintain and improve the 911 communication system. Enforcement of fee collection was to be administered by the telephone companies, resulting in lawsuits from AT&T and Verizon against the City. Stockton removed its 911 Fee after the presiding court ruled that the fee was in fact a tax and required voter approval. Stockton could recover many of its 911 system costs by putting the 911 Fee to a vote in a General Election or Special Election. Stockton’s previous fee was \$1.50. In its most recent election, San Francisco Measure O passed with voter approval to establish a \$2.75 fee. (Zielke Decl., Exh. B., p. 52)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have adopted a 911 fee, and that such fee would not have detrimental secondary effects, is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City allegedly did not discuss or adopt the measures included in the Alternative Model, whether in their entirety or in any given respect, is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Over the past three years, the City has not taken advantage of many grant opportunities that are available to it, despite publicly acknowledging the importance of relying on grants for funding several of its programs, particularly with regard to street and highway upgrades and maintenance and the compensation of its police force. Although it is true that Stockton receives a certain portion of federal formula grants each year, Stockton has greatly underperformed in identifying and pursuing a multitude discretionary grant programs that would have otherwise provided revenues to the City’s flagging service programs. (Zielke Decl., Exh. B., p. 53)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City would have been able to obtain new grants is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to obtain such grants is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>For example, to date in calendar year 2012, 25 comparable cities in California have applied for and received either Assistance to Firefighters or a Staffing for Adequate Fire & Emergency Response (SAFER) grant, both of which are administered directly by FEMA. Despite experiencing similar staffing crunches and budget shortfalls as those successful applicants</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City would have been able to obtain new grants is vague, speculative, and assumes facts not in evidence. Zielke’s implication that because other cities have obtained grants, the City could have as well, is also vague, speculative, and assumes facts not in</p>

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<p>and facing a challenge in providing adequate fire prevention and safety services, Stockton failed to seek out and to apply proactively for this grant opportunity. Several similar grants are available upon direct application to the administrating federal agency in many other critical city-function areas, such as law enforcement, shelter and temporary housing programs, education, and health care. (Zielke Decl., Exh. B., p. 53)</p>	<p>evidence. Moreover, the City’s alleged failure to obtain such grants is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Likewise, Stockton has not fully pursued discretionary grant programs that are administered by the state of California. In surveying 2012 announced awards, A&M was only able to find two state-funded awards made to Stockton: (1) a State Charter School Facilities Incentive Grants Program for the Aspire Rosa Parks Academy and (2) a City/County Payment Program Grant from CalRecycle to promote beverage recycling. The state, however, offers grants for almost all vital city service activities, such as local transportation planning, enhancing law enforcement scope, improving special education capabilities, providing environmental preservation services, and development of the workforce and specially trained professionals. (Zielke Decl., Exh. B., p. 53)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City would have been able to obtain new grants is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to obtain such grants is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>A&M did not see in the AB 506 Ask where the City reviewed its current inventory of City properties to determine the highest and best use or potential monetization of underutilized assets and property. Most recently and after the June 28th bankruptcy filing, it is our understanding that the City has now engaged a professional real estate consulting firm to assist in the potential sale of its real estate holdings. This initiative should have been done prior to the AB 506 process and formal bankruptcy filing. The City did not fully examine all of its financial alternatives prior to its Chapter 9 filing and claim of insolvency. (Zielke Decl., Exh. B., p. 54)</p>	<p>The City objects on the grounds that Zielke’s statement that she “did not see” in the City’s AB 506 Ask where the City had reviewed its current inventory of properties is vague, speculative, and assumes facts not in evidence. Moreover, the fact that Zielke believes the steps the City did undertake to look into the sale of properties should have been taken earlier is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>The City should examine its underutilized assets and the costs of privatizing certain programs/services. Selling facilities or land could generate new property tax revenues and selling assets could also raise short cash liquidity. In our document review, we did not find that the City examined privatization efforts in its Financial Sustainability Plan. (Zielke Decl., Exh. B., p. 54)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could privatize various City programs or services and could sell City property for a reasonable price, is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City did not undertake to look into the sale of properties is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Large facility and building assets the City should consider for potential sale or monetization or privatization should include:</p> <ul style="list-style-type: none"> • 400 East Main Street Office Building • Closure and/or Sell Existing City Hall • Stockton Events Center • Marina and Boating Facilities • Recreational Facilities • Bob Hope Theatre • Oak Park Ice Arena • Civic Auditorium • Community Centers • Print-Shop operation • Water, Wastewater and Storm Water Utility Systems • Weber Point Events Center • Public Libraries • Vacant city properties and abandoned rights of ways <p>(Zielke Decl., Exh. B., p. 54)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could sell City property for a reasonable price is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City did not undertake to look into the sale of properties is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>Any sale of assets will produce one-time cash funds to City. Prior to the use of such funds to support one-time spending needs of the City, outstanding debt obligations must be liquidated from the sale proceeds. By removing underutilized assets or properties that require General Fund subsidy to support operations and capital improvements, the sale will provide financial relief to the General Fund and debt obligations will be satisfied. (Zielke Decl., Exh. B., pp. 54-55)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could sell City property for a reasonable price is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s conclusion that the City must prioritize paying outstanding debt obligations is also speculative and assumes facts not in evidence. Furthermore, to the extent that conclusion amounts to a legal opinion that the City is obligated to pay off outstanding debt obligations before funding other priorities, it constitutes an impermissible legal opinion. Finally, the fact that the City did not undertake to look into the sale of properties is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Since the authorization of the Transactions and Use Tax Law in 1969, many local add-ons are combined with the state and local sales tax rates. In many counties, there is now an add-on for public library services. Table 14 shows counties that currently have sales and use tax add-ons for public library services. San Joaquin County has not established a dedicated tax for library services but could do so with voter approval to dedicate revenues to support its public library services. (Zielke Decl., Exh. B., p. 55)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City would have been able to impose new local add-ons and local taxes, and that such measures would have the desired effect and would not result in detrimental secondary effects, is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to impose such taxes and add-ons is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 14 – Peer Sales Taxes for Library Services” (Zielke Decl., Exh. B., p. 55)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City would have been able to impose new local add-ons and local taxes, and that such measures would have the desired effect and would not result in detrimental secondary effects, is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to impose such taxes and add-ons is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>The City has not maximized its ability to reduce spend nor has it fully realized its revenue-generation potential with opportunities for the potential sale, lease or privatization of city buildings, services and assets to reduce direct or indirect costs to the General Fund. (Zielke Decl., Exh. B., p. 55)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could sell or privatize City property, services, and assets is vague, speculative, and assumes facts not in evidence. Moreover, the fact that Zielke believes the steps the City did undertake to look into the sale or privatization of its properties, services, and assets is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>As shown in Table 15, if Stockton had considered and obtained voter approval in some instances, it could have generated an additional \$9.6 million in FY 2012-13 and \$35.6 in FY 2013-14 when the revenues are annualized. The City failed to present these options to the City Council as part of the FY 2012-13 budget process or Pendency Plan. (Zielke Decl., Exh. B., p. 55)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City’s citizens would have voted to approve multiple new tax increases is completely speculative and assumes facts not in evidence. Moreover, the fact the City did not adopt the new tax increases included in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>This amount does not include any new revenues from unrealized grant opportunities or net proceeds from the sale or privatization of City assets. (Zielke Decl., Exh. B., p. 56)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City would have been able to obtain new grants is vague, speculative, and assumes facts not in evidence. Moreover, the City’s alleged failure to obtain such grants is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 15 – Revised Baseline Budget Strategies – Revenue Opportunities” (Zielke Decl., Exh. B., p. 56)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have imposed the revenue enhancement measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. In particular, it speculates that the City’s citizens would have voted to approve multiple new tax increases. Moreover, the fact the City did not adopt the revenue enhancement measures included in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>The above table identifies specific recurring revenue opportunities and their effects over three fiscal years. California voters are increasingly likely to pass measures intended to support the local economy and provide essential city services. If these measures had been placed on the November ballot, the City could have received a necessary influx of monies into the General Fund through tax measures supported by residents of the City. (Zielke Decl., Exh. B., p. 56)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have imposed the revenue enhancement measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. In particular, it speculates that the City’s citizens would have voted to approve multiple new tax increases. Moreover, the fact the City did not adopt the revenue enhancement measures included in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>We did not see where the City discussed these initiatives or other revenue enhancements over the past two years since the first Emergency Order. (Zielke Decl., Exh. B., p. 56)</p>	<p>The City objects on the grounds that Zielke’s statement that she “did not see” whether the City had discussed revenue enhancement measures is vague, speculative, and assumes facts not in evidence. In particular, it speculates that the City’s citizens would have voted to approve multiple new tax increases. Moreover, the fact the City did not adopt the revenue enhancement measures included in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Table 16 provides a summary of the expense alternative options over the next three years. For FY 2012-13, the City failed to identify \$24.4 million of spending reductions that could have been made without materially impacting necessary services. (Zielke Decl., Exh. B., p. 57)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have imposed the budget-cutting measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. In particular, it speculates that the City could have adopted the substantial additional budget cuts outlined in the Alternative Model while still continuing to provide necessary City services. Moreover, the fact the City did not adopt the budget cuts and cost reduction measures included in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>“Table 16 – Spending Reduction Alternatives” (Zielke Decl., Exh. B., p. 57)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could have imposed the budget cutting measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. In particular, it speculates that the City could have adopted the substantial additional budget cuts outlined in the Alternative Model while still continuing to provide necessary City services. Moreover, the fact the City did not adopt the budget cuts and cost reduction measures included in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>As the City did not complete a bottoms-up or zero-based budgeting review in the development of the FY 2012-2013 budget, A&M believes that further reductions could have been made in non-public safety departments. Departments did submit budget reduction scenarios in both the FY 2011-2012 (Plan B) and the FY 2012-2013 (5-10-15% reduction scenarios) that were not implemented. The Alternative Model being presented calls for the Public Works, Economic Development, Charter Officers, Administrative Services, and Development services departments to reduce their General Fund budgets by 15%. The reduction strategies should be targeted through review of essential and nonessential services, shared service, consolidation, managed competition or other cost cutting initiatives. (Zielke Decl., Exh. B., p. 57)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the use of a zero-based budgeting review would have allowed for “further reduction” in nonpublic safety departments, as well as the implication that such reductions would have prevented the City’s insolvency, is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s reference to “essential” and “nonessential” services continues to be vague, speculative, and assuming facts not in evidence. Finally, the fact that the City did not utilize a “zero-based budgeting review” is irrelevant to the Court’s determination of the City’s eligibility for chapter 9.</p>
<p>Secondly, we noted that as of April 2012, non-public safety departments had 34 vacant positions. The 15% reduction option as proposed in the Department Reduction Alternative Model should take into consideration the potential \$3.9 million savings from not filling these positions. (Zielke Decl., Exh. B., p. 57)</p>	<p>The City objects on the grounds that Zielke’s statement that the City can “take into consideration the potential \$3.9 million savings from not filling these positions” is highly speculative, vague, and assumes facts not in evidence. Specifically, it assumes that the City will not, in fact, fill any of these positions, and that the set-aside in the City’s budget in case those vacancies are filled (which is a common and appropriate budgeting tool) is inaccurate. Moreover,</p>

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	Zielke’s disagreement with the City’s entirely appropriate inclusion of this item in its budget is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
<p>A&M notes that total (all departments) salaries and wages (including salaries, workers compensation, overtime, compensated absences, and other pay and benefits) represent the largest component of the General Fund budget at \$83.2 million in the FY 2012-13 Baseline Budget and are a driver for other labor-related city costs, such as health care and pensions. The FY 2012-13 budget for salary and wages reflects an 9.6% increase over the FY 2011-12 budget of \$76.0 million. The growth can be attributed to base salary growth of 4.4% for safety, non-safety, and part-time/temporary personnel, a 13.0% growth in workers compensation, a 7.0% growth in overtime, a 3.0% growth in compensated absences, and a 7.0% reduction in other pay and benefits. (Zielke Decl., Exh. B., pp. 57-58)</p>	<p>The City objects on the grounds that Zielke’s observation of the stated facts is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In addition to these items, the budget includes new costs for \$2.4 million in spend to replace the absence of grant funding received from the U.S. Department of Justice for the Community Oriented Policing Services (“COPS”) grant that was awarded in FY 2011-12 and expires in FY 2012-13. The COPS grant program is a program that has been awarding grants annually since 1995. In 2012, the COPS Hiring Program made “available \$111 million directly to law enforcement agencies to hire and/or rehire career law enforcement officers for the advancement of public safety through an increase in their community policing capacity and crime prevention efforts.”²⁹ Stockton did not backfill the 2011 award with a 2012 grant. (Zielke Decl., Exh. B., p. 58)</p>	<p>The City objects on the grounds that Zielke’s implication that the City could have obtained new grants or otherwise “backfill[ed]” its 2011 award is vague, speculative, and assumes facts not in evidence. Moreover, the fact that the City did not “backfill” its 2011 award is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>We did not see where the City made an appeal to the U.S. Department of Justice or the Congressional delegation for special assistances to potentially continue to fund these positions with Federal Grant Funds. (Zielke Decl., Exh. B., p. 58)</p>	<p>The City objects on the grounds that Zielke’s statement that she “did not see where the City made an appeal to the U.S. Department of Justice” is vague, speculative, and assumes facts not in evidence. Moreover, the implication that the City could have obtained new federal grants by appealing to the U.S. Department of Justice is also highly speculative, vague, and assumes facts not in evidence. Moreover, the fact that the City did appeal to U.S. Department of JusticeJ is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Overtime spending is another growing cost for the City. We question whether the City did a detailed review and analysis to determine:</p> <ul style="list-style-type: none"> • If overtime could be reduced by using different patterns for scheduling or expanded use of part-time personnel • If particular employees consistently work excessive amounts of overtime • If special projects that consistently create need for overtime and, if so, if the project could be approached in a different way • If nonessential or “nice-to-have” services are provided at a “premium” level that could be cut back in order to reduce overtime³⁰ <p>(Zielke Decl., Exh. B., p. 58)</p>	<p>The City objects on the grounds that Zielke’s statement that she “question[s] whether the City did a detailed review and analysis” of issues related to its overtime costs is vague, speculative, and assumes facts not in evidence in that it implies that the City did not do any review whatsoever of its overtime spending. Moreover, the City’s alleged failure to undertake such a review is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Table 17 shows the annual funding subsidies for various Community Services as presented in the City’s budget and planning models. Even though the City has supposedly studied “drastic” across-the-board cuts, each of these services was not only deemed “essential” as a matter of policy, but so crucial that they require</p>	<p>The City objects on the grounds that Zielke’s reference to essential and nonessential services is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the City could have adopted measures in the Alternative Model to reduce the funds dedicated to services she considers</p>

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<p>over \$6.5 million worth of General Fund support. Funding for nonessential programs such as the Arts Commission, Library Services, and the City’s recreational facilities should be paid from either user fees or private donations. (Zielke Decl., Exh. B., p. 59)</p>	<p>“nonessential” is also vague, speculative, and assumes facts not in evidence. Finally, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 17 – Summary of General Fund Support for other Programs” (Zielke Decl., Exh. B., p. 59)</p>	<p>The City objects on the grounds that Zielke’s reference to essential and nonessential services is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the City could have adopted measures in the Alternative Model to reduce the funds dedicated to services she considers “nonessential” is also vague, speculative, and assumes facts not in evidence. Finally, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In the FY 2012-13 First Quarter Update, the City includes projections for FY 2012-13. Included in those projections are additional subsidies for certain recreational facilities and Entertainment Venues. These additional subsidies are projected due to lower than expected revenues. The example above shows that Stockton is continuing to fund services that are nonessential. (Zielke Decl., Exh. B., p. 59)</p>	<p>The City objects on the grounds that Zielke’s reference to essential and nonessential services is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the City could have adopted measures in the Alternative Model to reduce the funds dedicated to services she considers “nonessential” is also vague, speculative, and assumes facts not in evidence. Finally, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Included under Department Budget Reductions is a reduction of \$2.9 million in various non-departmental costs. Major cost reductions include reducing the current budget contingency by \$500,000 and the elimination of the program subsidies for the General Fund supported entertainment venues by \$2.3 million. The entertainment venues should be funded solely by the funds generated by the events or by the third party providers. These contracts could have been renegotiated prior to the adoption of the FY 2012-13 Budget. (Zielke Decl., Exh. B., pp. 59-60)</p>	<p>The City objects on the grounds that Zielke’s reference to essential and nonessential services is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the City could have adopted measures in the Alternative Model to reduce the funds dedicated to services she considers “nonessential” is also vague, speculative, and assumes facts not in evidence. Finally, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<p>Table 18 details the recurring spending reduction alternatives by department that the City did not make when analyzing its essential services. In the Alternative Model, there is an additional \$8.9 million in savings that the City did not implement in its departments. These reduction alternatives only identify opportunities in administrative and nonessential city services as there are no direct cuts related to public safety or legal obligations. (Zielke Decl., Exh. B., p. 60)</p>	<p>The City objects on the grounds that Zielke’s reference to essential and nonessential services is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the City could have adopted measures in the Alternative Model to reduce the funds dedicated to services she considers “nonessential” is also vague, speculative, and assumes facts not in evidence. Finally, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 18 – Recurring Spending Reduction Alternatives” (Zielke Decl., Exh. B., p. 61)</p>	<p>The City objects on the grounds that Zielke’s reference to essential and nonessential services is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s implication that the City could have adopted measures in the Alternative Model to reduce the funds dedicated to services she considers “nonessential” is also vague, speculative, and assumes facts not in evidence. Finally, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>We note that the Pendency Plan did appropriate \$3.5 million for Chapter 9 restructuring costs and additional \$566,000 in carryover from FY 2011-12 as discussed in the December 11, 2012 Report on FY 2011-12 Unaudited General Fund Results. The Alternative Model does not recognize these budget items because the City’s bankruptcy filing could have been avoided had the City realized various identified revenue enhancements and expenditure reductions. (Zielke Decl., Exh. B., p. 62)</p>	<p>The City objects on the grounds that Zielke’s decision not to account for budget items related to the City’s chapter 9 restructuring and carryovers is speculative, in that such budget items are a reasonable (and actual) cost to the City. Moreover Zielke’s decision not to consider these budget items is entirely irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Table 19 below details the spending reduction alternatives identified by restructuring employee personnel wages and benefits for three years. The plan includes scaling back highly subsidized employee and retiree health care plans and eliminating vacant positions. As the City is in a difficult position financially, the restructuring of a generous benefit structure</p>	<p>The City objects on the grounds that the Alternative Model’s proposals for spending reductions as regards wages and benefits are speculative and assume facts not in evidence. Moreover, the fact the City did not adopt the Alternative Model’s measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R.</p>

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would have freed up essential monies for the City. Each of these reduction alternatives is discussed below. (Zielke Decl., Exh. B., p. 62)	Evid. 401, 402.
“Table 19 – Restructuring of Employee Personnel Wage & Benefits” (Zielke Decl., Exh. B., p. 62)	The City objects on the grounds that the Alternative Model’s proposals for spending reductions as regards wages and benefits are speculative and assume facts not in evidence. Moreover, the fact the City did not adopt the Alternative Model’s measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
Employee related health care costs were projected to decline by 7% from \$9.5 million to \$8.8 million in FY 2012-13. These costs assume a continuation of the existing trends per the Segal projection and the maintenance of current employee terms. A comparison of Stockton’s costs to other California cities revealed that cost of health care premiums and employee contributions is below its peer average. However, recent contribution limits have been established that will likely shift responsibility for additional cost to employees, thereby pushing Stockton above its peer group. (Zielke Decl., Exh. B., p. 63)	The City objects on the grounds that the Alternative Model’s proposals for spending reductions as regards wages and benefits are speculative and assume facts not in evidence. Moreover, the fact the City did not adopt the Alternative Model’s measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
Aon Hewitt performed a 2012 Health Care Study to provide benchmarks on practices in health care and health care coverage by employers in the face of ever increasing health care costs. The results of the study include benchmarks for cost sharing between employee and dependent health care coverage. The results show that employee-only coverage of costs averages 23% in 2012, and is expected to increase to 25% over the next three to five years, while 29% of dependent coverage is by the employee and is expected to increase to 31% over the next three to five years. (Zielke Decl., Exh. B., p. 63)	The City objects on the grounds that Zielke’s application of the benchmarks and practices provided by the Aon Hewitt report to the City’s specific circumstances is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the benchmarks or practices from the Aon Hewitt report is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.
Over 90% of Stockton’s health care costs are for plans that include dependents. By increasing employee costs for all plans on average to 25% in 2012-2013, the City could have saved \$258,104. By increasing the cost of	The City objects on the grounds that Zielke’s implication that the City could have imposed the price increases to health care costs without negative side effects (including political blowback and forcing some city

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<p>the employee only plans to 25% and the dependent care plans to 30%, the City would have saved \$777,410. (Zielke Decl., Exh. B., p. 63)</p>	<p>employees to carry less insurance) and with the expected savings is speculative and assumes facts not in evidence. Moreover, the fact the City did not adopt such increases is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Additional reductions could be achieved through combination of initiatives including: (a) rebidding of existing contracts with new provider; (b) increases in employee out-of-pocket expenses, and (c) reduction of current cap of employer premium share. (Zielke Decl., Exh. B., p. 63)</p>	<p>The City objects on the grounds that Zielke’s implication that the City could have taken the additional listed steps to reduce insurance costs and would have experienced the expected savings is speculative and assumes facts not in evidence. Moreover, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Retiree-related health care costs were projected to increase 15% from \$8.0 million to \$9.2 million. These costs assume a continuation of the existing trends per the Segal projection and the maintenance of current retiree terms. (Zielke Decl., Exh. B., p. 64)</p>	<p>The City objects on the grounds that Zielke’s implication that the City could have taken the additional listed steps to reduce insurance costs and would have experienced the expected savings is speculative and assumes facts not in evidence. Moreover, the fact the City did not adopt such measures is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Cobalt Community Research Health and OPEB Funding Strategies produced a study of local governments and special districts that tracks budget and staffing expectations and strategies to address employee and retiree health costs. This report showed that “the number of local governments who do not provide health care to retirees increased from 46% to 59%” between 2011 and 2012. Therefore, we strongly recommend that retirees be required to pay a larger portion of the overall cost of health care. (Zielke Decl., Exh. B., p. 64)</p>	<p>The City objects on the grounds that the application of the Cobalt study to the City is vague, speculative, and assumes facts not in evidence. Moreover, the choices of other municipalities with regard to whether to provide health care to retirees is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Our recommendation is to require retirees to pay 25% of the health care costs. This will reduce the City contribution towards the cost of retiree medical benefits for current and future retirees, and the General Fund savings will be \$2.3 million for FY 2012-13. (Zielke Decl.,</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could unilaterally require retirees to pay 25% of their health care costs is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s presumption that the City could legally take</p>

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Exh. B., p. 64)	such action amounts to an improper legal conclusion. Finally, the fact the City did not take such measures is irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.
The City's budget included budgeted vacancy savings of 0.8% or \$975,618 in FY 2012-13. The City also provided a vacancy report as of May 2, 2012 that reflected that 88 of the 853 total positions, or 10.3% of the total positions, were vacant. The Alternative Budget Model increases the vacancy savings for safety personnel to 9.0% generating an additional \$3.5 million in savings in FY 2012-13, \$2.8 million in FY 2013-14; and \$2.4 million in FY 2014-15. The slight reduction in annualized savings in the future years is due to the increase in vacancy saving that has been budgeted by the City. (Zielke Decl., Exh. B., p. 64)	The City objects on the grounds that Zielke's statement that the City can adjust its budget item for vacancy savings is highly speculative, vague, and assumes facts not in evidence. Specifically, it assumes that the City will not, in fact, fill any of these positions, and that the set-aside in the City's budget in case those vacancies are filled (which is a common and appropriate budgeting tool) is inaccurate. Moreover, Zielke's disagreement with the City's entirely appropriate inclusion of this item in its budget is irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.
The Pendency Plan takes many measures to reduce personnel costs by restructuring wage and employee and retiree benefits agreements. The City enacts changes that restructure employee and retiree health care, eliminating benefits for some retirees and decreasing its share of current employee health care spend. (Zielke Decl., Exh. B., pp. 64-65)	The City objects on the grounds that Zielke's conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.
Pension agreements are also re-structured as new tiers are created for new employees and unfunded liabilities are decreased. COLAs and deferred raises that are guaranteed for some employees are eliminated and excessive vacation and sick day benefits are taken away under the plan. (Zielke Decl., Exh. B., p. 65)	The City objects on the grounds that Zielke's conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court's determination of the City's eligibility for chapter 9. Fed. R. Evid. 401, 402.

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<p>Our Alternative Model does take into consideration the salary adjustments to the Pendency Plan Labor Adjustment related to the Stockton Police Officers Association, as approved by City Council on December 11, 2012. (Zielke Decl., Exh. B., p. 65)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Our understanding is that CalPERS’ hardship provisions permit an employer to amortize its unfunded liability over a thirty year period rather than a shorter period which ordinary CalPERS actuarial practices may have produced. By letter dated December 4, 2012, the City finally made a request to CalPERS for a hardship extension. If a hardship extension is first granted for FY 2012-13, the savings would be approximately \$1.25 million in FY 2012-13, increasing to \$1.5 million in FY 2013-14 and \$1.75 million in FY 2014-15. The total three year hardship savings for the period FY 2012-2013 through FY 2014-15 would be approximately \$4.5 million.³¹ (Zielke Decl., Exh. B., p. 65)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could or should have sought a hardship exemption from CalPERS earlier is vague, speculative, and assumes facts not in evidence. Moreover, Zielke’s assumption that such hardship exemption would be granted is also vague, speculative and assumes facts not in evidence.</p>
<p>Table 20 below details the revised contract payments, reduction of fiscal stability measures, and opportunities for consolidation within Police and Fire. In the A&M Alternative Model, the City could cut the Marina debt payment as it is not legally obligated to make the payment as the citizens and City Council did not vote on its approval. (Zielke Decl., Exh. B., p. 65)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>The City’s FY 2012-13 budget also added various fiscal stability measures which the City cannot fund with its current revenues and spending plan. The reduction of fiscal stability measures could reduce nonessential expenses, and the City’s consolidation or privatization of police and fire dispatch could make a</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the</p>

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PARAGRAPH OBJECTED TO	GROUNDS FOR OBJECTION
<p>cumbersome process more efficient and cost-effective for future years. These two opportunities could have recognized an immediate savings of \$3.6 million for the City. Each of these reduction alternatives is discussed below. (Zielke Decl., Exh. B., p. 66)</p>	<p>Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>“Table 20 – Revised Contract Payments/Loan Debt” (Zielke Decl., Exh. B., p. 66)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>That feasibility study led to the development of the Stockton Marina facilities. The City sees no legally enforceable obligation to pay the debt service on this obligation; however, it will continue the modest subsidy to keep it open but not pay any debt.³² The Marina has operated at a net loss and will continue to rely on subsidies to operate, but there is no reason for the City to continue its subsidies as it is not legally obligated to make these payments. (Zielke Decl., Exh. B., pp. 66-67)</p>	<p>The City objects on the grounds that Zielke’s statement that there is “no reason” for the City to continue its subsidies is vague, speculative, assumes facts not in evidence, and is an impermissible legal conclusion. Moreover, the City’s decision to continue the marina subsidy is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>The Alternative Model reflects the deferment of the Fiscal Emergency Measures that were added to the FY 2012-13 Budget. These reductions include:</p> <ul style="list-style-type: none"> • Delay remaining fiscal stabilization measures that further increase preventive maintenance • Reduce increase in funding for preventive maintenance • Reduce funding transfers to the Internal Service Funds for Computer Technology and rebuilding the internal service funds 	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<ul style="list-style-type: none"> • Eliminate funding for the phase-out of the furlough days <p>(Zielke Decl., Exh. B., p. 67)</p>	
<p>A&M has provided a series of recommendations on the consolidation of services, privatization and managed competition areas. One efficiency measure the Alternative Model recommends is the consolidation of Police and Fire Dispatch functions. This recommendation is based on additional operational and financial efficiencies in the delivery of critical public safety functions. (Zielke Decl., Exh. B., p. 67)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>Cities like City of Kansas City, Kansas, City of Kalamazoo, Michigan, and City of Charleston, South Carolina are just a few of the many municipalities which have combined their 911 dispatch functions. For preliminary modeling purposes the cost savings is based on the elimination of four supervisor positions. Other cities have experienced significantly higher savings, however. (Zielke Decl., Exh. B., p. 67)</p>	<p>The City objects on the grounds that the application of the experiences of other municipalities to the City’s specific situation is vague, speculative, and assumes facts not in evidence. Moreover, the experience of other municipalities is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>In addition to the above cost-cutting measures, other options and alternatives the City should have considered include:</p> <p>Outsourcing/shared service/government consolidation opportunities</p> <ul style="list-style-type: none"> • Shared services (IT, payroll, Accounts Payable, administrative services) • Consolidation county services (IT, Police/Sheriff, employee health programs) • Fleet management • Parking enforcement • Engineering • Recreation 	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>

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<ul style="list-style-type: none"> • School Resource Officers (Note that costs for officers can be fully recovered from schools) • Animal Control (including sheltering facilities) • Fire service opportunities • Consolidated Public Safety Department <p>Managed competition and cost avoidance initiatives</p> <ul style="list-style-type: none"> • Four-day workweek for all non-public safety operations • Health care dependent audit <p>Capital Improvement Program - this is a cost-effective means for street maintenance and asphalt overlay (Zielke Decl., Exh. B., pp. 67-68)</p>	
<p>In summary, the City does not have a reliable handle on either its current finances or its future finances, continues to fund unneeded programs and services, and has refused to explore sources of available revenue and revenue enhancement measures through all relevant periods. Stockton can achieve various budget efficiencies that, when combined with revenue enhancements, would allow the City to remain viable and cash flow solvent outside of bankruptcy. (Zielke Decl., Exh. B., p. 68)</p>	<p>The City objects on the grounds that Zielke’s conclusion that the City could implement the measures contained in the Alternative Model is vague, speculative, and assumes facts not in evidence. Moreover, the fact the City did not adopt the measures listed in the Alternative Model is irrelevant to the Court’s determination of the City’s eligibility for chapter 9. Fed. R. Evid. 401, 402.</p>
<p>This report is based on estimates, assumptions, and information gathered from our research related to the City of Stockton current and prior year budgets, CAFR’s, and the adopted Pendency Plan. The sources of information and bases for the assumptions are stated herein. While we believe that the sources of information are reasonable and reliable, Alvarez & Marsal has not, as part of this engagement, performed an audit or review of any of the financial information used and therefore does not express an opinion or any other form of assurance on the accuracy of such</p>	<p>The City objects to these statements and all statements in the Zielke report on the grounds that Zielke here acknowledges that <u>she did not perform an independent audit or review of the City’s financial information and cannot express an opinion as to the accuracy thereof.</u> Therefore, all statements in this Report regarding Zielke’s conclusions as to the accuracy of the City’s financial information and the City’s ability to avoid insolvency and chapter 9 are speculative, vague, assume facts not in evidence, and are entirely irrelevant to the Court’s</p>

