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

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

Case No. 2012-32118  
D.C. No. OHS-1  
Chapter 9

**EXHIBITS M THROUGH O TO THE  
DECLARATION OF LAURIE  
MONTES IN SUPPORT OF CITY OF  
STOCKTON'S STATEMENT OF  
QUALIFICATIONS UNDER SECTION  
109(C) OF THE UNITED STATES  
BANKRUPTCY CODE**

Date: TBD  
Time: TBD  
Dept: TBD  
Judge: TBD

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# Exhibit M

**SPECIAL CITY COUNCIL**

**AGENDA ITEM 6.02**

May 17, 2011

TO: MAYOR AND CITY COUNCIL

FROM: BOB DEIS, CITY MANAGER

SUBJECT: **RESOLUTIONS BY THE CITY COUNCIL OF THE CITY OF STOCKTON TO CONTINUE 2010-11 EMERGENCY MEASURES AND DECLARING A STATE OF EMERGENCY BASED ON FISCAL CIRCUMSTANCES FOR FISCAL YEAR 2011-12**

**RECOMMENDATION**

First, it is recommended that the City Council adopt a resolution to declare that the City remains in an emergency based on fiscal circumstances, and to continue the 2010-11 fiscal year emergency measures adopted by Council resolutions 10-0200 and 10-0201 on June 22, 2010.

Second, it is recommended that the City Council adopt a resolution to declare an emergency for fiscal year 2011-12 based on fiscal circumstances and to direct the City Manager to take appropriate and lawful measures to adopt a balanced budget for fiscal year 2011-12.

**SUMMARY**

Stockton is at a critical point in its history. Facing declining revenues, a depleted work force, fixed labor contracts, and a \$23 million budget deficit, on May 26, 2010 the City Council declared an emergency based on fiscal circumstances, and requested the City's labor unions to meet and confer in order to achieve necessary concessions. After negotiations proved unsuccessful, the Council adopted additional resolutions (Nos. 10-0200 and 10-201) in order to adopt a balanced General Fund budget and sustain municipal services during the 2010-11 fiscal year. While that emergency declaration prevented unacceptable cuts to public safety and other services, both the fire and police unions are continuing to pursue legal actions against the City challenging the 2010-11 emergency, and therefore, the City remains at risk with respect to its 2010-11 declared emergency.

As we approach the 2011-12 budget, Stockton's deficit continues to grow. As set forth in this report, although the City's revenues continued to decline slightly in 2010-11, the good news is that they are predicted to level off, and even gradually increase in the coming years. Unfortunately, the City's cost structure continues to rise at a rate that far exceeds any realistic estimate of revenues, and, as a result, the budget gap this year is predicted to be even larger than the

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gap last year. The primary reason for this increase is employee wage and benefit costs that are embedded in existing, closed MOUs. These include, in particular, formula driven raises, skyrocketing pension and health costs, and pay provisions and practices such as excessive vacation leaves and longevity pays that are out of synch with the labor market. In addition, the problems that have bedeviled the General Fund are now spreading to other funds, many of which are running deficits, and some of which will fall back on the General Fund. These problems are exacerbated by cuts at the state level.

The City's labor negotiators have been engaging all of the City's unions, including those with "closed" contracts, in an attempt to reach agreements on changes to MOUs. To date, insufficient progress has been made to materially address the City's financial issues. Therefore, unless progress is made before the budget is finalized, the Council will once again face a stark choice between dramatic cuts in public safety services and other vital services or implementation of temporary emergency measures to tide the City over and ensure solvency until the bulk of the City's labor contracts are open in July 2012.

For the reasons set forth below, it is recommended that the City Council adopt two resolutions. First, it is recommended that the City Council adopt a resolution to declare that the City remains in an emergency based on fiscal circumstances and to continue the 2010-11 fiscal year emergency measures adopted by Council resolutions 10-0200 and 10-0201 on June 22, 2010.

Second, it is recommended that the City Council adopt a resolution to declare an emergency for fiscal year 2011-12 based on fiscal circumstances and to direct the City Manager to take appropriate and lawful measures to adopt a balanced budget for fiscal year 2011-12.

It is further recommended that, pursuant to those resolutions, City negotiators immediately engage with the City unions to meet and confer regarding possible emergency measures, and to continue seeking agreements that will protect public safety and preserve vital public services during this extraordinary time.

This report is presented in the following sections:

- I. City's Current Fiscal and Revenue Environment
- II. 2010-11 General Fund Quarterly Update, Annual Projection, and Recommendation to Extend 2010-11 Emergency Measures
- III. 2011-12 General Fund Projections, Other Program Risks, and Recommendation to Adopt 2011-12 Emergency Measures

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**DISCUSSION****Background****I. City's Current Fiscal and Revenue Environment****A. The City Council is Legally Required to Pass a Balanced Budget**

The City of Stockton's Charter requires that the City Council adopt a balanced budget at the outset of each fiscal year, which commences on July 1.

A balanced budget is also needed to support General Fund cash flow through inter-fund lending. Because the General Fund's most significant revenue, property tax, is received from the County through installment payments late in the fiscal year, the fund operates with negative cash flow until these tax receipts are current. The California State constitution permits intra-year borrowing for expenditures that are covered by revenues attributable to the same fiscal year. Accordingly, a balanced budget is needed to support the cash flow borrowing necessary to operate during the fiscal year.

The City of Stockton is the 13<sup>th</sup> largest city in California, with an estimated population of approximately 292,000 residents. The City provides a full range of municipal services to these residents: public safety (police and fire), community development, community revitalization, economic development, public works and street maintenance, parks, recreational services, libraries, utilities (water, wastewater, and stormwater) and general administrative services.

The City's total fiscal year 2010-11 adopted operating budget was \$312 million, of which \$167 million is the tax-supported General Fund. Overall, Stockton's budget is comprised of a variety of General Fund and other special purpose funds, including user fee and grant funds that are restricted and not available for general municipal operations. The primary budget focus is the General Fund, since its unrestricted tax dollars support public safety and other key municipal services. As the fund of last resort, it is also called upon to supplement and backfill shortages in other programs.

The largest among the restricted user fee programs are the municipal utilities, which comprise approximately 26% of the total operating budget. As a result of various legal requirements, including State constitutional protections such as Proposition 218, funds from the utilities are not available to the General Fund. Other services provided to City residents that are supported by dedicated revenue streams include street maintenance, affordable housing, community development, and the public facility fee capital program.

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**B. Budget Balancing Principles**

In January 2009, the City Council's Budget, Finance and Economic Development Committee adopted the budget balancing principles which since have served as guidelines for the City Council's budget development actions. These principles have been an important part of the Council's budget discussions over the past two years and include the following:

1. ***Insolvency is not in the best interest*** of the City and should be avoided.
2. Acknowledging that staff is the most important resource of the City, emphasis will be placed on ***reducing the number of layoffs***.
3. ***One-time money should be used for one-time costs*** and cannot sustain long-term fiscal health.
4. In order to ensure a thriving, livable community, there must be a balance ***between public safety, infrastructure maintenance, and quality of life services***.
5. ***All community stakeholders***, both internal and external, should be ***consulted in funding a resolution*** to the City's fiscal crisis.
6. Long-term fiscal health includes ***investment in meaningful reserves*** to withstand future fiscal downturns.
7. Additional ***revenue sources should be explored*** in conjunction with expense reductions.
8. Care must be taken ***not to cut programs which will cause reductions in revenue*** to the City.
9. Reductions should be ***avoided that might exacerbate City liabilities*** or have long-term effects that would be costly to reverse.
10. The long-term goal is to establish a budget that will ***ensure accountability, internal controls, and long-term financial stability***.

**C. Economic Environment**

The City continues to be deeply impacted by the "Great Recession." Some of its budget problems reflect the broader economic problems faced by Stockton's residents. By almost any measure, the "Great Recession" has had a devastating effect on Stockton's residents, and their economic resources.

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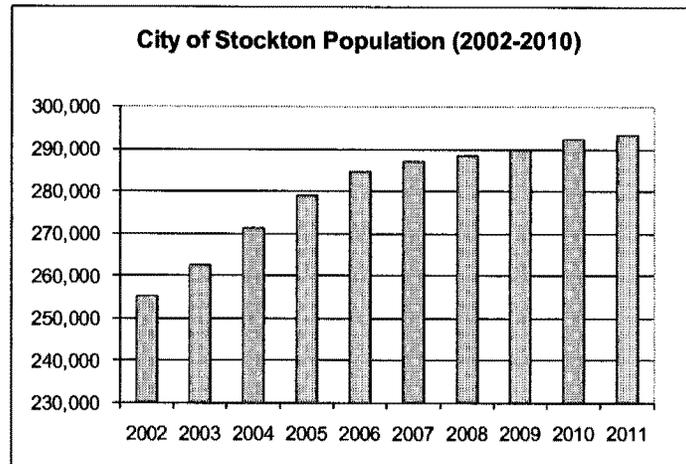
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Following a development boom with rapid population increase, the City now continues to face high unemployment, high foreclosure rates, and declining property values.

### 1. Population

During the past decade, Stockton has experienced a significant population increase. Since 2002, the City's population has increased by over 36,000 residents to 292,515 residents. This increase peaked in 2005 with an annual growth rate of four percent. Although this increase has recently slowed, moderate population growth is expected to continue past 2011, along with an increasing demand for City services.



Source: Department of Finance Population Estimates for Cities, County and State

The decade's population increase has come hand-in-hand with a development boom. This development has added to the City's obligation to provide infrastructure support and essential public services.

### 2. Unemployment

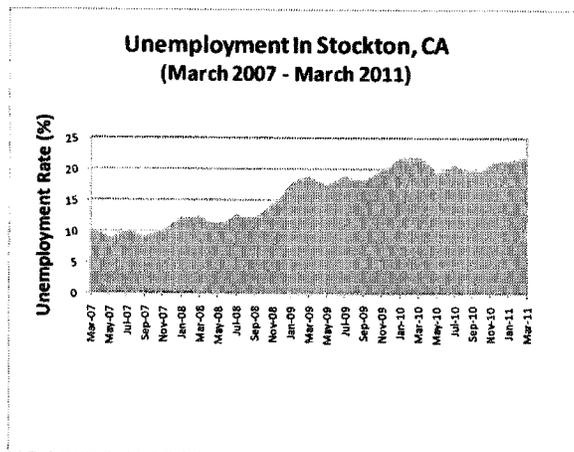
The unemployment rate in the City of Stockton has been steadily increasing since March 2007, with minor dips due primarily to the seasonal nature of labor within the agricultural sector. In March 2010, the rate within the City reached a high of 22 percent, and after a dip to 21.5 percent in November, and is again at 22 percent for the month of March, 2011. Stockton's unemployment remains significantly higher than the state average of 12.5 percent for 2010<sup>1</sup>.

<sup>1</sup> University of the Pacific Business Forecasting Center

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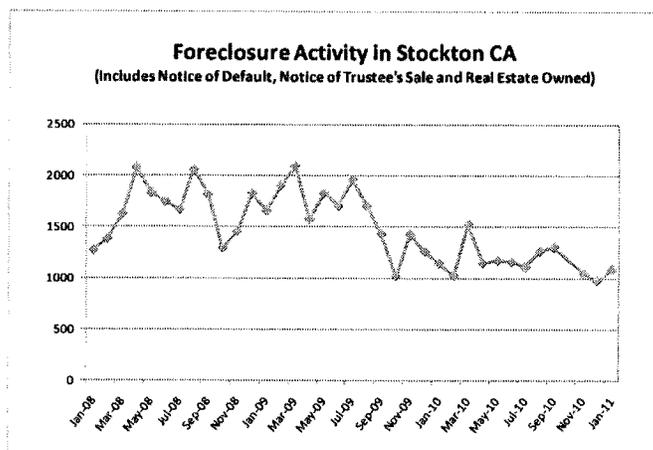
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Source: U.S Bureau of Labor Statistics, Local Area Unemployment

**3. Foreclosures**

The City of Stockton faced a debilitating housing foreclosure crisis that peaked in 2008, with many months of over 2,000 combined reported Notice of Default, Notice of Trustee's Sale, and Real Estate owned properties within the City. Since July of 2009, overall foreclosure activity in the City has improved and decreased to 1,085 reported foreclosures in January 2011.



Source: RealtyTrac, U.S Foreclosure Market Report

**4. Median Home Sales Price**

After several years of decline, median home sales prices in the City have leveled and stabilized. The current median price of approximately

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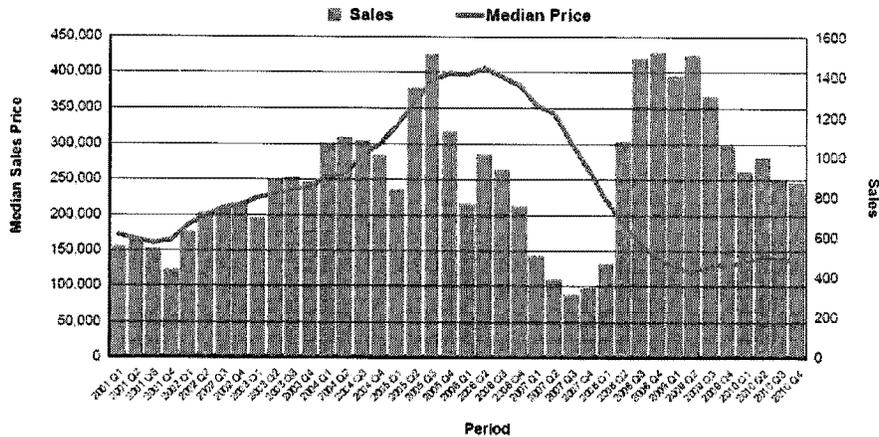
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\$140,000 is now one third of the \$400,000 median price at the 2006 market peak.



**THE CITY OF STOCKTON  
SALES HISTORY**

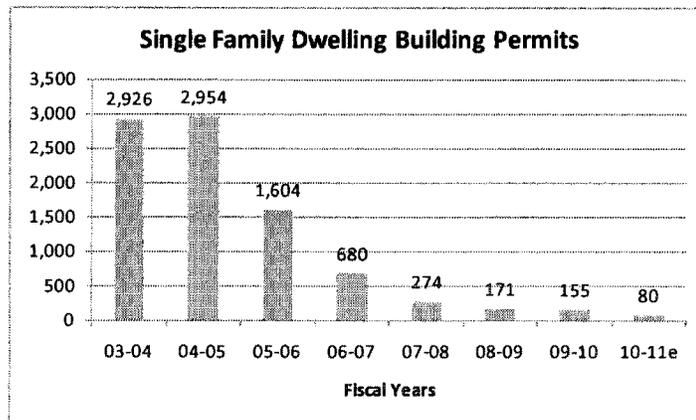
Detached Single Family Residential Full Value Sales (01/01/2001 - 12/31/2010)



Source: San Joaquin County DataQuick Property Data

**5. Building Permits**

In the past five years, the City has experienced a significant decline in single family residential dwelling permits. The chart below illustrates the number of such building permits issued since 2003-04. Single family dwelling building permits for 2010-11 are projected to drop to 80 permits, compared to 2,954 permits in 2004-05. The chart below illustrates the activity during this period. Accordingly, development-related fees and capital funding has virtually ceased.



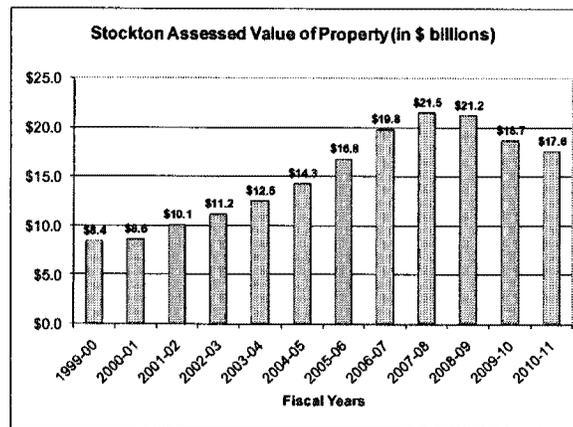
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### 6. Property Values

Beginning in 2008-09, property values in the City began to decrease slowly at first by 1.3 percent from the previous year. In 2009-10 they dropped another 11.7 percent, and continued to drop another 5.9 percent in 2010-11. This drop in property values directly contributes to a decline in the City's property tax apportionment and the tax revenues available to support services. This affects the General Fund and redevelopment programs. While the 2011-12 valuation has not been finalized by the County Assessor, initial reports received in April 2011 indicate that the next valuation may be approximately level with 2010-11.



Source: San Joaquin County Auditor-Controller

### 7. California State Budget Deficit Also Impacts Stockton

In addition to local economic factors, the State of California also presents risk to the City as the State addresses its own budget deficit. On January 12, 2011, the State Governor released his proposed budget plan to address an estimated \$25 billion State budget problem, including an \$8.2 billion deficit expected for the remainder of 2010-11 and a new \$17 billion revenue/expenditure gap for 2011-12. Key elements of the proposal were: 1) an extension of temporary tax increases originally adopted in 2009; 2) a restructuring of state-local delivery of services; and, 3) the elimination of redevelopment and enterprise zones. While the proposed State budget makes strides to focus on multi-year and ongoing solutions, its proposals to realign state and local program responsibilities and change local economic development efforts unfortunately create risk to the City of Stockton's own fiscal plan and carries devastating impacts to the Stockton Redevelopment Agency and its ongoing potential as an engine for economic development.

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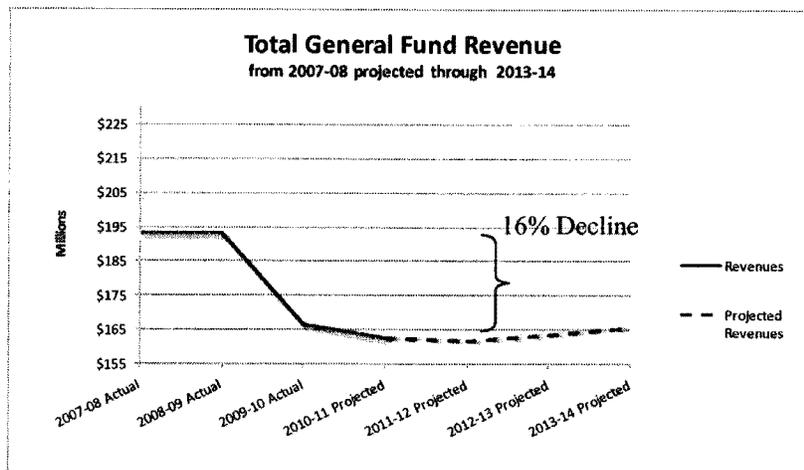
The State budget proposal would have severe negative impacts on Stockton, including loss of Citizens Option for Public Safety (COPS) grant funds, state funding for the Stockton-San Joaquin County Library system, and Redevelopment Agency funding for two fully funded and seventeen partially funded positions. The General Fund may have to absorb \$700,000 to \$1,200,000 for jail booking/jail access fees which are currently reimbursed by the State. The State budget would also eliminate Enterprise Zone incentives used by the City to create jobs and stimulate business investment in economically distressed areas.

In recent years, the State has adopted its budget well after the start of the City's fiscal year. The ultimate State budget impact to Stockton is unlikely to be known until after the City adopts its budget. Contingency has been built into projections to address this uncertainty.

**D. General Fund Revenues**

**1. Trend: General Fund Revenue Has Fallen Precipitously**

Over the past several years the City has experienced significant declines in its General Fund tax revenue. 2011-12 General Fund revenues are now projected at \$162 million, which reflects a 16 percent and \$31 million decline from the City's high mark of \$193 million in 2007-08.



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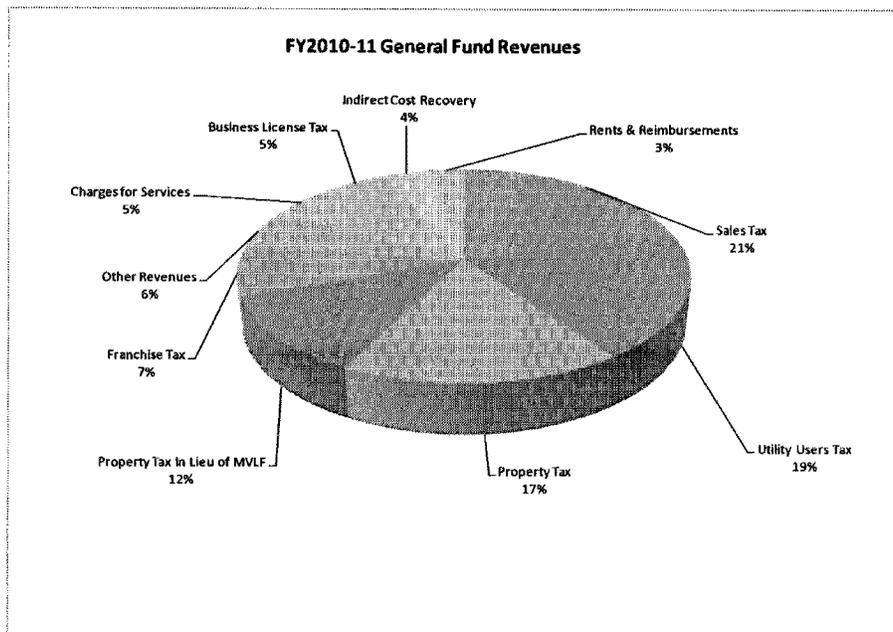
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Year	Revenue (Millions)	Percentage Change from Prior Year
2007-08 Actual	\$193	n/a
2008-09 Actual	\$193	0%
2009-10 Actual	\$167	-13.8%
2010-11 Projected	\$163	-2.1%
2011-12 Projected	\$162	-0.7%
2012-13 Projected	\$163	0.6%
2013-14 Projected	\$166	1.8%

## 2. Sources of General Fund Revenues

The City's General Fund is heavily reliant on three main tax revenue sources: (1) property tax, (2) sales tax, and (3) utility user tax. Together, these three sources account for approximately 69 percent of General Fund revenue. The following chart shows the full range of sources of General Fund revenues.



### a. Property Tax

Earlier in the decade, Stockton's General Fund property tax revenues almost doubled from \$32 million in 2000-01 to \$60 million in 2007-08. It is during these "boom" years that local agencies were pressured to spend

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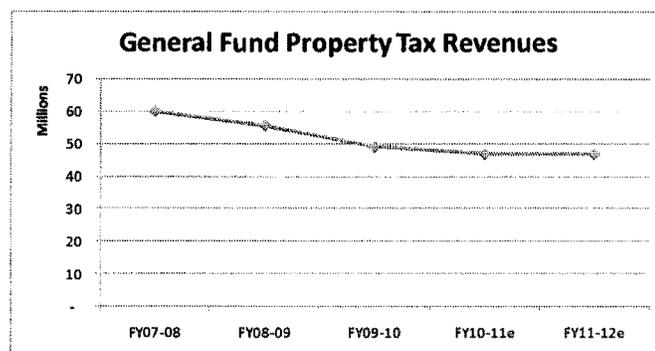
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the money rather than to set it aside for the eventual “bust” years. The City’s lack of reserves and unsustainable compensation practices are a reflection of this pressure. The building boom, driven by increases in market values for resale homes, contributed to this growth rate. The dramatic decline of this revenue source began in 2008-09, due to the collapse of the housing market.

Property tax revenues dropped by 12 percent in 2009-10 and are expected to drop an additional 4.3 percent in 2010-11. In addition to downward pressure on housing values, this decline was further amplified by a negative Proposition 13 CPI factor used by County assessors to adjust assessed values for properties that remain valued at less than market. For the first time in State history, the 2010-11 factor was negative. Typically the Proposition 13 adjustment factor is limited to an annual 2 growth cap, but for 2010-11 it was a negative 0.237 percent, and for 2011-12 it is projected to be a nominal 0.753 percent.

The City’s property tax revenues in total, including property tax received in lieu of Motor Vehicle License fees, are projected to level off and start nominal recovery in 2011-12 at a growth rate less than 1 percent. Since the 2005 “triple flip” change in State law, most of revenues formerly received from the State as Motor Vehicle License Fees are now distributed by Counties to Cities as a factor of assessed property value, and will prospectively be discussed and projected along with direct property tax revenue.

The following graph illustrates the General Fund property tax revenue trend since 2007-08. As illustrated in the chart, property tax revenues declined over a four-year period from \$60 million in FY 2007-2008 to an estimated \$47 million in FY 2011-12. This is a 22 percent decline or a \$13 million revenue loss.



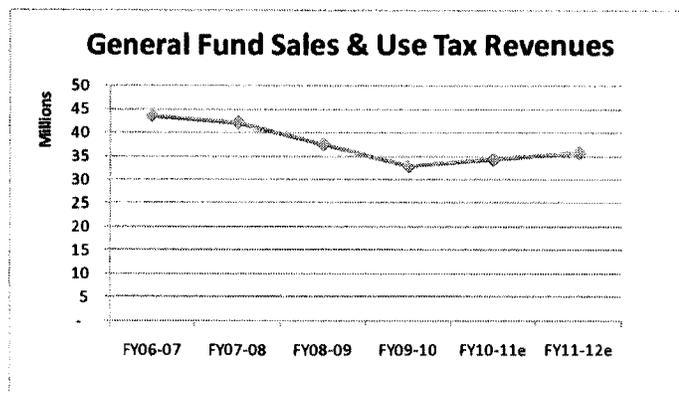
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**b. Sales and Use Tax**

Sales and Use tax is the second largest General Fund tax source. Revenues are projected to decline by 15% from 2007-08. This decrease amounts to a \$6 million revenue loss over this 5 year period. This decline was due to the economic downturn as many Stockton citizens lost their jobs and homes to foreclosures. Loss of consumer confidence in the economy contributed to this dramatic decline, from \$42 million in 2007-08 to a projected \$36 million in 2011-12.



Point-of-sale sales tax revenues for FY 2010-11 are projected to be approximately flat with prior year point-of-sale revenues. A portion of the reported revenue drop for 2009-10 reflects a prior year true-up in the City's share of the County Sales and Use Tax Compensation Fund, which is part of the "triple flip" tax backfill distribution formula from the County established in 2005. The 2011-12 sales tax revenues are projected to increase 4.4% based on improved consumer confidence and increases in the Fuel and Auto sectors. Sales tax is projected to continue recovering in future years with annual growth rates in the 2-2.5% range.

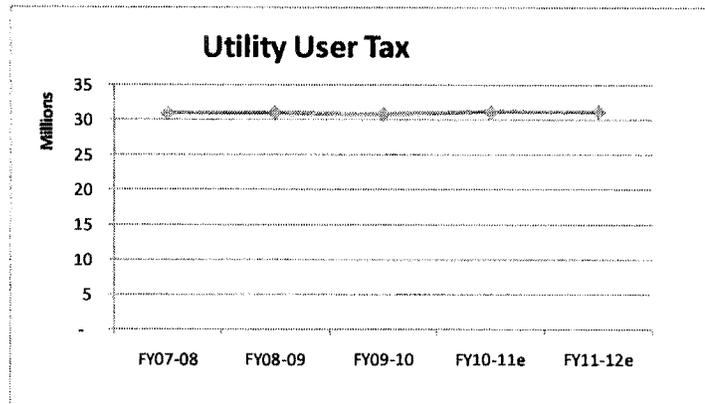
**c. Utility User Tax**

The third largest General Fund tax revenue sources is utility user tax, which has leveled off since 2008-09 due to the recession, houses vacated by the foreclosure crisis, and flattening population growth. UUT revenues are expected to see modest growth until housing construction and population growth resume. The estimated utility user tax revenue for FY 2011-12 represents a 0.3% increase over the prior year, reflecting minimal growth for this revenue source.

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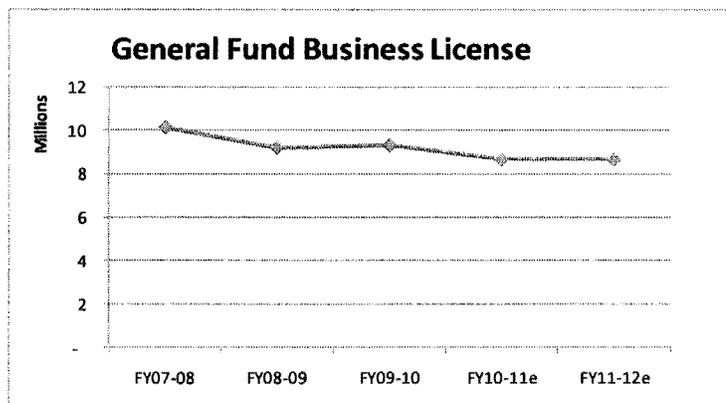
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**d. Business License Tax Revenue**

Business License Tax revenues are projected to decline 14% or \$1.5 million since 2007-08. The decline in Business License revenue is due to business closures and lower gross receipts as reported by local businesses. Business Licences revenue is expected to be level for 2011-12.



**e. Program Revenues**

City program and staff reductions have contributed to a decline in program revenues.

- **Local Fire Districts:** Districts that contract with the City for fire services are currently charged based upon a percent of the total Fire Department budget. As the Fire budget has decreased from \$50.3 million to \$46.9 million, between 2007-08 and 2010-11, revenues from the fire districts also decline as a result of the contract reimbursement methodology.

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- **Code Enforcement:** Revenues are down primarily due to a reduction in staffing in the Neighborhood Services division. Since 2009, staff has been reduced by 14 positions or more than 30%. Further, the timing of the County's distribution method for assessments under this particular code citation has changed. The County's assessment practice has changed and reduced the City's Code Enforcement cash flow. In the past, any uncollected code enforcement liens were sent to the County for collection through property liens. This year the County was unwilling to assess properties for code enforcement liens greater than the property's land value.
- **"Crash Tax:"** The City Council approved a fee in early 2010 for cost recovery of emergency response to car accidents and various other emergencies involving non-residents. The revenue estimate for this cost recovery activity was projected to be \$400,000 in 2010-11. Based on actual billings during the first year of the program, the Fire Department is now projecting annual revenues of \$50,000 in both 2010-11 and 2011-12.
- **Vehicle Impound:** The Police Department charges a release fee for impounded vehicles. Due to staff reductions, fewer vehicles have been impounded and the related revenue is down 45% or \$240,000 from 2009-10.
- **Inter-fund cost allocation reimbursements:** Revenue estimates for inter-fund reimbursements have been reduced to reflect a corresponding reduction in support costs and staff. Indirect costs are based on a Cost Allocation Plan that uses actual prior year expenditures. Because support department expenditures have been declining since 2008-09, the General Fund will be charging less recovery to other City special fund programs. A second factor in the indirect cost revenue is an overhead charge on capital projects. The City will be reducing its capital project expenditures once federal stimulus funding and bond proceeds are expended. It is projected that support department costs and capital project expenditures will not recover at previous levels.

**3. Revenue Declines Are Leveling Off and are Projected to Slowly Rebuild**

In total, after two years of rapid contraction, General Fund revenues are projected to level off in 2011-12 and slowly increase by 1-2% annually through 2014. The total revenues of \$170 million projected in 2014 are

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still far below the City's historical levels of over \$190 million achieved in both 2007-08 and 2008-09.

The California State Constitution has been amended over the years through ballot propositions that limit a local agency's ability to increase or add new tax revenues, including Proposition 13, Proposition 218, and the recent Proposition 26. Since local voters have already approved Measures K and W to establish and dedicate supplemental sales taxes to transportation and public safety programs, the City has limited opportunities to create new revenue sources. Furthermore, given our high unemployment and foreclosure rates and our relatively low per-capita income level, we simply do not see a viable tax proposal that would be passed by the voters.

Accordingly, the City can expect a smaller revenue pool from which to finance its municipal services for years to come. This will require a stark re-examination of the size and cost of City services to adjust expectations of the community and its employees to live within these reduced means.

**II. 2010-11 General Fund Quarterly Update, Annual Projection, and  
Recommendation to Extend 2010-11 Emergency Measures**

This section of the report provides an update on the 2010-11 fiscal condition and provides context for the recommendation to continue the existing 2010-11 emergency measures through June 30, 2011. The emergency measures temporarily suspend scheduled pay increases for Police and Fire from taking effect during fiscal year 2010-11. In addition, the measures restrict firefighter time off and temporarily closed Fire Truck Company 4, which reduces Fire Department overtime. These resolutions require the City Manager to review the fiscal status of the General Fund at least quarterly, and determine if the emergency measures should be modified or terminated.

**A. 2010-11 Year-to-date Results**

The following charts present year-to-date actual revenues, expenditures, and cash balances for the General Fund. While expenditures continue to track favorably to budget, projected operating savings are not expected to fully offset the projected risk in General Fund revenues and other programs. Overall, the General Fund is projected to require inter-fund transfers to maintain a positive balance at June 30, 2011.

As shown in the following chart, 2010-11 revenues are projected to fall short of budget by \$4.3 million for the year. While tax revenues have been stronger than

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the budget plan, program revenues are short. The most significant shortfall, in Code Enforcement, is due to a change in the County distribution methodology for those delinquent code assessments liened against the property. These distributions are no longer subject to the Teeter distribution plan. Other program revenue shortages are also concentrated in Police and Fire as these departments adjust their revenue expectations to decreased 2010-11 staffing.

**General Fund Revenues  
April 2011 Year-to-Date Results  
(\$ in thousands)**

	2009-10	2010-11				
	<u>Actual</u>	<u>Current Budget</u>	<u>Year-to-Date at 4-21-11</u>	<u>%</u>	<u>Projection at 5-5-11</u>	<u>Budget Variance</u>
Taxes/other general revenues						
Property Tax	\$ 48,782	\$ 45,463	\$ 25,131	55%	\$ 46,691	\$ 1,228
Sales Tax	32,710	32,915	18,934	58%	34,158	1,243
Utility Users Tax	30,717	31,380	21,493	68%	31,059	(321)
Other general revenues	24,822	25,867	14,893	58%	24,143	(1,724)
	137,031	135,625	80,451	59%	136,050	426
Program revenues and interfund reimbursements	29,551	31,356	20,682	66%	26,564	(4,792)
Total	<u>\$ 166,583</u>	<u>\$ 166,981</u>	<u>\$ 101,133</u>	<u>61%</u>	<u>\$ 162,615</u>	<u>\$ (4,366)</u>

Expenditures, on the other hand, are trending favorable to budget. With nine months, or 75%, of the fiscal year complete, only 72% of the budget has been consumed. However, not all expenditures are incurred evenly throughout the year. Year-end accruals and other postings are likely to consume some of this 3% surplus. We continue to enforce a modified hiring freeze and additional expenditure controls to get us to the fiscal year's finish line.

**General Fund Expenditures  
March 2011 Year-to-Date Results  
(\$ in thousands)**

<u>Departments</u>	<u>Budget &amp; Encumbrances</u>	<u>Year-To-Date Actuals 3/31/2011</u> 75.00%	<u>Year-To-Date (Over) Under 75% of Budget</u>	<u>% of Budget</u>
Police	\$ 88,572	\$ 65,110	\$ 1,319	74%
Fire	46,890	34,707	461	74%
Public Works	7,777	5,048	785	65%
Other Programs	4,756	2,761	806	58%
Administrative Support	8,897	5,696	977	64%
Transfers-out	11,200	7,685	715	69%
	<u>\$ 168,093</u>	<u>\$ 121,008</u>	<u>\$ 5,062</u>	<u>72%</u>

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On a cash basis, the General Fund continues to carry a negative balance at March 2011. The fund's cash balance is typically negative for much of the fiscal year as payroll and other expenditures are disbursed prior to the receipt of large County property tax revenue distributions in January, April, and June. The following chart presents General Fund cash balances by month. These reported balances include the General Fund and the Payroll Trust Fund, which have traditionally been reported together. Approximately \$4-5 million of the following balances are held in the payroll trust fund at month-end pending distribution through the City's payroll on the 7<sup>th</sup> day of the following month. The General Fund's monthly cash deficits are covered through the investment pool. Such intra-year borrowing is allowable within the context of the California constitution's debt authority as long as the expenditures are payable from revenues attributable to the same fiscal year. With the assumption of a balanced budget, supplemented by inter-fund transfers as needed, the March cash deficit of \$6.5 million is expected to be repaid prior to the end of the fiscal year.

**General Fund  
Cash Balances by Month**

July 2010	\$ 1,294,617
August 2010	(3,520,236)
September 2010	(11,978,112)
October 2010	(19,062,539)
November 2010	(22,282,357)
December 2010	(13,506,300)
January 2011	(12,462,666)
February 2011	(4,662,011)
March 2011	(6,562,402)

**B. Projected Annual General Fund Results**

The following chart reflects the current 2010-11 General Fund projected annual activity and ending available balance projection for June 30, 2011. This chart reflects an updated revenue projection as of May 5, 2011. The fund's expenditure projection was last updated on March 24, 2011. While year-to-date expenditure trends through March 31, 2011 remained positive, and may indicate additional savings potential, other programs outside the General Fund have identified problems that may require an unexpected \$1.8 million General Fund backfill. The overall current year-end deficit projection is now \$3.6 million, revised from the \$2.5 million deficit most recently reported. This \$3.6 million will be proposed to be covered by additional expenditure reductions or inter-fund transfers. A comprehensive update on the status of non-General Fund programs is in progress and will be presented in June, along with the proposed 2011-12 budget, with a proposal to address any remaining 2010-11 projected deficit.

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General Fund Reserve Projection 2010-11			Projected
Beginning Balance			\$ 1,198,000
Revenues	at 5-5-11		162,614,560
Expenditures	at 3-24-11		(166,865,341)
Other fund program risks	at 5-5-11		(1,800,000)
Draw on encumbrance/other reserves			1,212,907
Net Annual Activity			(4,837,874)
Anticipated additional expenditure reductions and/or inter-fund transfers			3,639,874
Ending Balance			\$ -

**C. Status of Emergency Measures**

The Stockton Firefighters Local 456 and the Stockton Police Officers Association have both initiated legal actions against the City to force termination of the emergency measures that suspended scheduled salary increases, imposed leave usage restrictions, and closed Fire Truck Company 4, as imposed by the City Council subject to on-going negotiations.

The estimated annual value of the 2010-11 emergency terms imposed on Police and Fire employees is \$12 million. If the City had not imposed emergency terms in 2010-11, the projected General Fund deficit discussed above would increase from \$3.6 million to \$16 million. Available unrestricted City resources have not been identified to backfill a deficit of that magnitude.

A portion of the emergency cost savings were in the form of staffing redeployments, and a portion were from frozen salaries and other benefit changes. The ultimate results of both the Police and Fire employee objections to the current year Fiscal Emergency remain unknown. The arbitrator handling the grievance brought by the Fire union may rule in June, 2011. Police litigation is ongoing. Should retroactive payments be due to Police and/or Fire employees for salary and benefit reductions, the General Fund would be at risk for back payments of at least \$5 million. No appropriation or reserves have been identified at this time to cover this retroactive payment risk.

**D. Recommendation to Continue 2010-11 Emergency Measures**

Based upon a review of year-to-date revenues, expenditures, and cash flow, and of projections for the remainder of the fiscal year, it is recommended that the City Council adopt a resolution to continue the current year emergency measures.

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This action will continue to reduce General Fund costs resulting from imposed salary, benefit, and leave usage reductions, and staffing reductions resulting from closure of Fire Truck Company 4. Continuance of these measures is necessary to generate the savings needed to maintain a balanced budget and maintain solvency of the General Fund during fiscal year 2010-11.

**III. 2011-12 General Fund Projections, Other Program Risks, and  
Recommendation to Declare 2011-12 Emergency**

As the City approaches its budget for the new fiscal year beginning July 1, 2011, it faces a General Fund budget deficit that has grown to \$37 million on a base of \$162 million in revenues, for a deficit gap of 18%. Although revenues have leveled off after years of double digit declines, employee compensation costs face a steep increase.

Balancing the General Fund budget through service reductions alone would bring cumulative work force reductions to 42% over the past three-year period, and would create untenable deficiencies in public safety and other programs. Further, after years of slow development activity, loss or expiration of federal and state grant sources, and citywide program revenue declines, the City's deteriorated economic condition extends beyond the General Fund to virtually all programs of the City. Significant funding gaps threaten the City's ability to pass a balanced budget that provides essential public services for 2011-12.

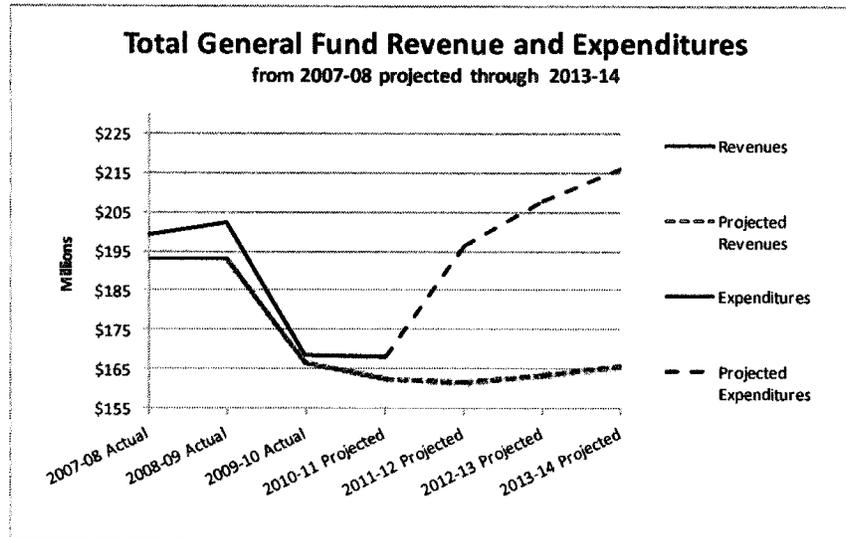
**A. General Fund: Despite Aggressive Steps to Reduce Costs, Annual  
Deficits Continue to Grow****1. The City has Aggressively Cut Costs in Recent Years**

The City's current fiscal crisis is driven by two major factors: the significant decline in revenues outlined above, and, more critically, a dramatic increase in employment costs. As shown on the following chart, the City has reacted swiftly to the downward spiral in revenues during the past several years. However, the first two years of this protracted recession (2007-08 and 2008-09) relied on the depletion of General Fund reserves to balance the operating budgets.

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From 2007-08 through 2009-10, a variety of cost reduction measures were implemented across many service areas and functions. Measures included the renegotiation of bargaining unit labor agreements; implementation of two early retirement incentive programs; 10 furlough days in FY 2008-2009 and 12 furlough days in FY 2009-2010, or furlough equivalent, for all City employees including public safety personnel; a hiring freeze of City employee positions including public safety; and a reduction of City operational hours across many departments. In 2010-11, temporary emergency measures were implemented to balance the budget, saving \$12 million in public safety staffing and compensation costs.

### 2. General Fund Baseline Costs Soar for 2011-12 and Beyond

Without emergency measures, the City faces restoration of previously withheld salary increases, new scheduled salary increases for 2011-12, and soaring health and pension costs.

A baseline expenditure projection has been established for 2011-12 with the estimated cost to preserve existing service and staffing levels within the boundaries of existing labor contracts, without emergency measures. Due to ongoing litigation/arbitration with the Stockton Police Officers Association and the Stockton Firefighters Local 456, this baseline projection assumes all costs from existing labor contracts (i.e., costs that would be incurred if there were no emergency measures). In this baseline projection, General Fund expenditures reach \$199 million, which is an increase of \$32 million from the 2010-11 budget. Baseline costs have

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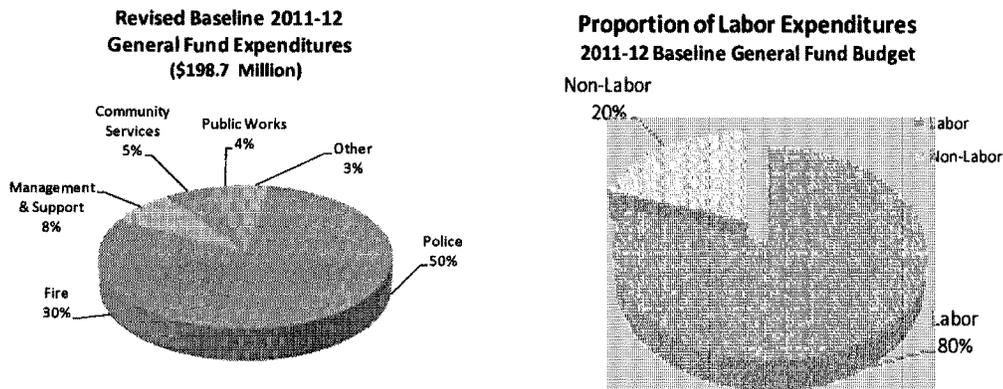
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been increased by \$2 million since last reported to City Council on March 22, 2011. This increase is due to unexpected problems in several non-General Fund programs that are expected to require General Fund support until operational solutions can be identified and implemented.

Significant portions of the year-to-year cost increase are associated with the sunset of labor concessions such as furloughs, cost of living adjustments (some COLA adjustments are as much as 14%), and the related benefits associated with these significant increases in base pay. Despite several years of significant staff cost reductions through attrition, early retirement incentives, furloughs, renegotiation of labor collective bargaining agreements, hiring freezes, and reductions to operating hours and services, costs are still on the rise, and particularly benefit costs.

**3. General Fund Expenditures are Substantially Public Safety/Labor**

The following charts present the breakdown of 2011-12 General Fund expenditures by program and type.



Public safety, including the Police and Fire departments, represents the most significant component of General Fund expenditures. Police and Fire comprise 50% and 30%, respectively, or 80% of the baseline expenditure budget. Further, labor costs represent 80% of the General Fund budget.

**4. Labor Costs are Primary Driver of General Fund Service Costs**

As a service provider, the City's labor costs drive the General Fund budget. The following is a summary of the most significant labor cost components. Of particular note is the current load for benefits and other incremental compensation types ("add pays"). Total benefits and "add

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pays” add an estimated 115% load onto base pay. This does not include overtime.

General Fund Personnel Costs			
Fiscal Year 2011-12			
	(millions)	(%) of Total	(%) of Base
Base Pay	\$ 63	47%	100%
Additional Pay	9	6%	
Retirement	30	22%	
Health/Dental	26	19%	
Other Benefits	8	6%	
Subtotal	73	53%	115%
Total	\$ 136	100%	

Employee benefit costs are the most significant factor in the projected growth of City personnel costs. The growth in benefit costs are outpacing the City's tax revenue growth and present costs that the City has limited options to control within the context of existing labor contracts. The City's costs for medical coverage of active and retired employees and pension costs are soaring. In addition to increasing costs associated with inflation and other cost drivers, with a few recent exceptions, the City's labor contracts obligate the City to cover ALL costs. That is, there has been no or minimal employee contribution to healthcare or pension. Exceptions include the police groups which have paid a nominal cost toward healthcare since 2007-08. In FY 2010-11, two additional employee groups began nominal health and/or pension contributions.

**a. Salary Formulas**

Most of the City's labor contracts automatically tie future salary increases to a formula. The result of these automatic formulas is that they require pay increases whether or not the City has the revenue to support increases. All but two (SCEA, the clerical/technical unit and Mid-management Supervisory) are tied to CPI. These salary formulas contain a minimum salary increase of 2.5 percent. Other labor contracts contain salary formulas based on a survey of various agencies, including agencies that have marginal relevance to the City of Stockton. For example, the City's contract with its fire union requires a survey to be conducted involving the cities of Anaheim, Fresno, Garden Grove, Huntington Beach, Pasadena, San Bernardino, Santa Ana, and Torrance among others. The contract requires the City to provide whatever pay that will place the fire employees salaries at "the bottom of the top 3<sup>rd</sup>" – i.e., the fifth highest salaries among sixteen agencies.

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As a result of a survey formula in a labor contract with the Police Officers Association ("POA"), the City recently faced a legal dispute. The POA asserted that the salary survey required the City to increase its wages as of July 1, 2008 by 23 percent, and the POA sought arbitration on this issue. The City eventually settled, and the settlement called for a 15 percent retroactive base pay increase effective July 1, 2008. The POA eventually agreed to partial concessions by agreeing to a furlough program, and to delay parts of the scheduled increases, however, these are short term solutions. With respect to the POA, for example, their labor agreement currently calls for reinstatement of a uniform allowance, and additional salary increases in FY 2010-2011, as well as reinstatement of retiree medical trust contributions in FY 2011-2012. Total costs embedded in the labor contract amount to approximately \$2.3 million. Although asked to make ongoing concessions without conditions that would prevent the parties from negotiating a new contract in 2013, the POA has declined to do so.

The current contractual obligations are fiscally unsustainable. With respect to the POA MOU, for example, total base wage increases embedded in the contract amounted to nearly 36 percent from January 1, 2002 through July 1, 2008, plus the additional amount that resulted from the salary survey discussed above. Adding to the City's General Fund deficit for FY2010-11 is the restoration of previously negotiated concessions, such as furloughs, salary survey-based increase for Fire of 8.5% and CPI-based increase of 3.68%, uniform allowances, etc.

**b. Pension**

The City contracts with the California Public Employees Retirement System (PERS) for retirement benefits, and these benefits are reflected in each of the City's labor contracts. Police and Fire employees ("safety") enjoy the highest level of benefits, known as "3% at 50," while all other employees ("non-safety") receive a "2% at 55" formula. Safety employees retire with an annual pension benefit of up to 90 percent of their single highest year's salary. "Salary" includes additional pays that are embedded in the contract, such as "administration pay," "education incentive," "longevity incentive," "certification pay," and "uniform pay" among others.

For example, while a Fire Captain's "salary" is listed at \$101,303.95, the true salary can be increased by additional pay through the labor MOU by over \$35,000 (not including benefits). Thus, a Fire Captain who retires

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with a base salary of \$101,303.95 will receive a lifetime annual pension of over \$122,000 annually.

Under the Public Employees Retirement System ("PERS") law, the contracting agency and each employee or annuitant must contribute a percentage toward their pensions (known as the mandatory employee contribution). (Gov. Code § 22890.) For safety employees, the employee contribution is nine percent of salary. For non-safety employees, the employee contribution is seven percent. However, PERS also permits a contracting agency to elect to pay all or a portion of the normal contributions of members of a group or class of employment. (Gov. Code § 20691.) The employer-paid contribution of the employee's share is referred to as the Employer Paid Member Contribution or EPMC. The City's labor agreements have shifted this cost - the employee's required contribution - to the City (the employer). Thus, the City currently pays the employee portion, or EPMC, plus the employer portion of the required pension contribution. The employer contribution for 2011-12 is 29.099% percent for safety and 16.941% for non-safety or miscellaneous. Adding the EPMC, the City is paying about 38% of covered payroll to CalPERS for safety employees' retirement.

Further, the City issued \$125 million in pension obligation bonds in 2007. Bond proceeds were contributed to the City's CalPERS pension plans to finance a portion of the City's unfunded pension liability. Annual debt service payments are \$7 million. In addition to the 38% of covered payroll contributed to CalPERS, the City pays an additional 9.6% of safety payroll in debt service on these pension bonds. The combined employer cost for safety employees' retirement is 48%.

At June 30, 2009, the most recent pension valuations available, the market value of the safety and miscellaneous pension plan assets comprised only 64% and 65% of plan liabilities, respectively, down from 95% for both plans in 2008. This reflects the significant investment losses realized in the CalPERS investment portfolio in 2008-09. As a result, notwithstanding the CalPERS funding methodology that will smooth rate increase over several years, the City's contributions are projected to rise.

The City's CalPERS actuary has projected City contribution rates for the next five years. Rates are increasing due to CalPERS investment losses and new demographic/longevity factors. Over the next five years, Safety plan contribution rates are expected to increase by 10% of pay, while Miscellaneous plan contributions will increase by 7% of pay. Further, the City's \$7 million annual pension obligation bond payment is likely to be amortized over a downsized employee workforce as the City adjusts

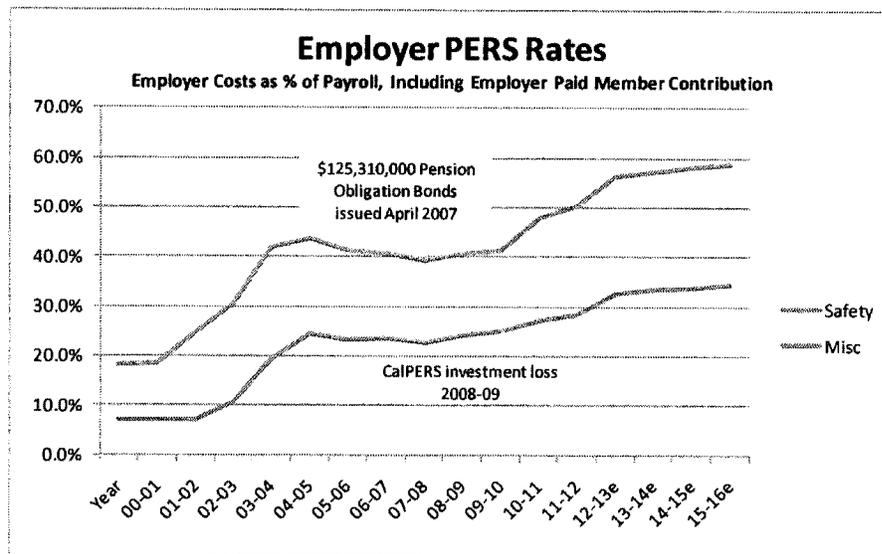
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operations within a balanced budget, which further increases pension costs as a percentage of payroll.

The following chart shows the dramatic increase in pension rates since 2001. These rates consolidate CalPERS contributions, debt service on the City's pension obligation bond, and administrative costs. Without changes in this cost structure, Safety rates are expected to reach a remarkable 58% within 5 years, while Miscellaneous employee rates are projected to reach 34% of payroll.



**c. Retiree Health**

Although staffing reductions since 2008 provided salary savings, many reductions were a result of retirements, which drive a corresponding increase in retiree health insurance costs. In the past, the City did not fund a reserve for retiree health benefits and instead paid for both existing staff and retirees on a "pay as you go" basis. As a result, the actuarial value of the unfunded liability for retiree health care at June 30, 2009 has grown to \$544 million, or over 500% of covered payroll. A subsequent peer review has increased this liability further to \$560 million.

The City is self funded for a majority of health claims and collects monies from departments to cover active and retiree claims, based on the number of active employees in each department. In times of growth, and average attrition, this might have been a sufficient means of financing health costs, but with the rapid work force decline and sharp increase in retiree beneficiaries, the healthcare rates charged to departments have increased

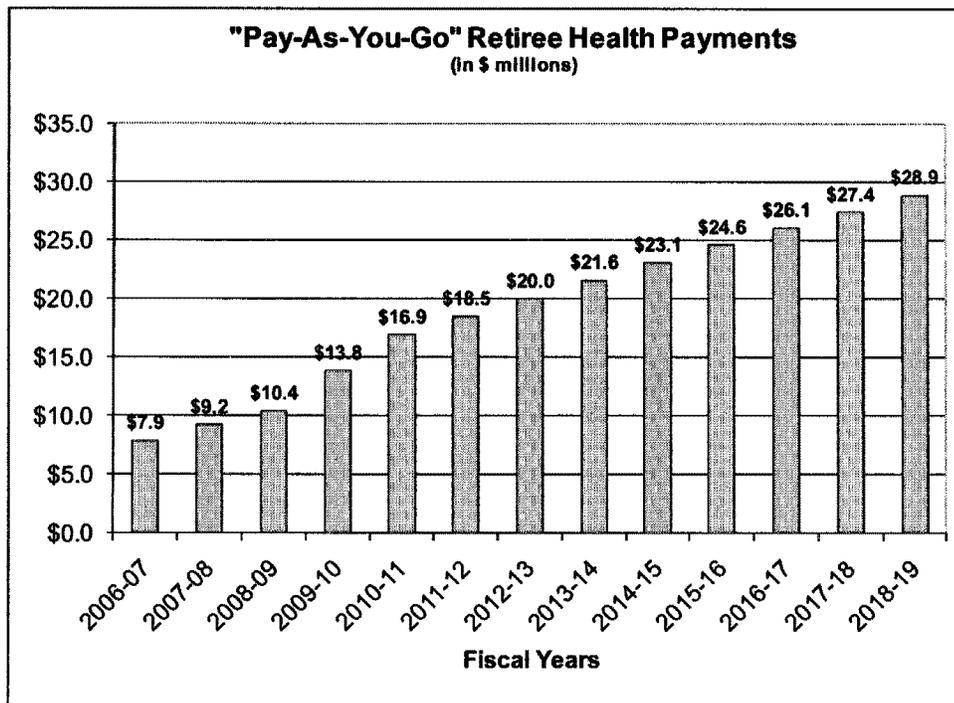
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more than 71% since fiscal 2008-09. The annual charge to departments, if the City were to fully fund its retiree health program, would approximate 40% of safety payroll.

Furthermore, the City's retiree medical benefit is one of the most generous in the state. Medical claim costs have increased an average of 17% in over the last three years. As shown in the following chart, the annual "pay as go" cost for claim disbursements, without pre-funding, are projected to triple, from \$10 million in 2008-09 to \$29 million by 2019, consuming an ever increasing share of the City's available revenues. The City must find a way to begin to reduce and/or fund this liability or, even without the other fiscal problems described in this report, retiree health care costs will become increasingly unaffordable for the City.



Source: June 2009 Actuarial Valuation, Issued December 2010

**d. Total Active and Retiree Health Costs**

The following chart reflects the dramatic \$12 million increase in the City's combined active and retiree pay-as-go cost of health benefits, from \$27.7 to \$39.5 million over the past three years.

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Cost of Health Benefits - All Funds			
Fiscal Year	Active Employees	Retirees	Total
2007-08	\$19.2	\$8.5	\$27.7
2008-09	\$20.7	\$10.1	\$30.8
2009-10	\$20.9	\$13.8	\$34.7
2010-11e	\$22.7	\$16.8	\$39.5

Of the 1493 currently authorized employee positions in the City, only 544 employees are required to pay an employee contribution to healthcare, pursuant to their respective labor agreements. Employee contributions range from \$100/month to \$345.62 per month. Therefore, most City employees receive 100% of all costs paid by the City for participation in the City's self-funded PPO plan. PPO plan terms provide deductibles of \$150 per employee, \$450 per family paid by the employee, and once the deductible is met, the City funds 100 percent of most costs. The City's 2010-11 costs per year for this benefit are estimated at \$15,582 per active employee, or approximately \$22.5 million for active employees and their dependents.

The City's Health Advisory Committee has met to achieve plan design changes, and although certain agreements have been reached, there has not been agreement on an overall plan design.

The City reached agreements for 2010-11 with the Stockton Police Officers' Association, (SPOA), the Stockton Police Management Association (SPMA), Operating Engineers' Local 3, and unrepresented group to receive an employee contribution (i.e., a monthly payroll deduction) toward health insurance. However, the majority of the workforce still does not contribute anything towards medical premiums. The current plan is underfunded and unable to sustain current obligations.

**e. Conclusion – Benefits**

Many of these benefit obligations are difficult, if not impossible, to reduce in the short term. Although the City could seek to create a second-tier retirement system, the savings from doing so would be very modest in the short term. The only meaningful way for the City to reduce its pension costs in the short run is to require that employees contribute more, such as going back to terms in which employees pay their own share of the retirement costs. Similarly, medical costs are projected to continue rising at almost double digit rates for years to come, eventually leveling off at

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around 5% a year. In general, the City can expect the cost of pension and health benefits, in their current structure, to continue to rise.

**B. Consequences Without Emergency Action: Alternative General Fund  
Department Reductions**

Without emergency action, the scope of necessary service reductions would severely redefine the City's service capacity and eliminate essential community services. General Fund Departments have been challenged to identify \$37 million in program and cost reductions to balance the 2011-12 budget within the current labor contract cost model. As detailed in the following chart, department reductions would reduce the General Fund workforce by 17%, on top of prior year reductions of 25%, for a cumulative workforce contraction over the past three years of 42%. Current year reductions are estimated to eliminate 236 full-time positions and 9 part-time positions, of which 206 of the full-time positions are filled.

**\$37 Million Reductions by Department  
2011-12 Budget Deficit**

<u>Department</u>	<u>Reduction</u>
Police	\$ 14,263,043
Fire	18,939,582
Public Works	1,017,600
Library	905,076
Recreation	550,435
City Council	63,835
City Manager	199,274
City Attorney	146,641
City Clerk	121,796
City Auditor	102,728
Administrative Services	404,078
Human Resources	134,687
Economic Development	56,036
Arts Commission	5,806
Non-departmental	77,657
<b>Total Reduction</b>	<b>\$ 36,988,274</b>

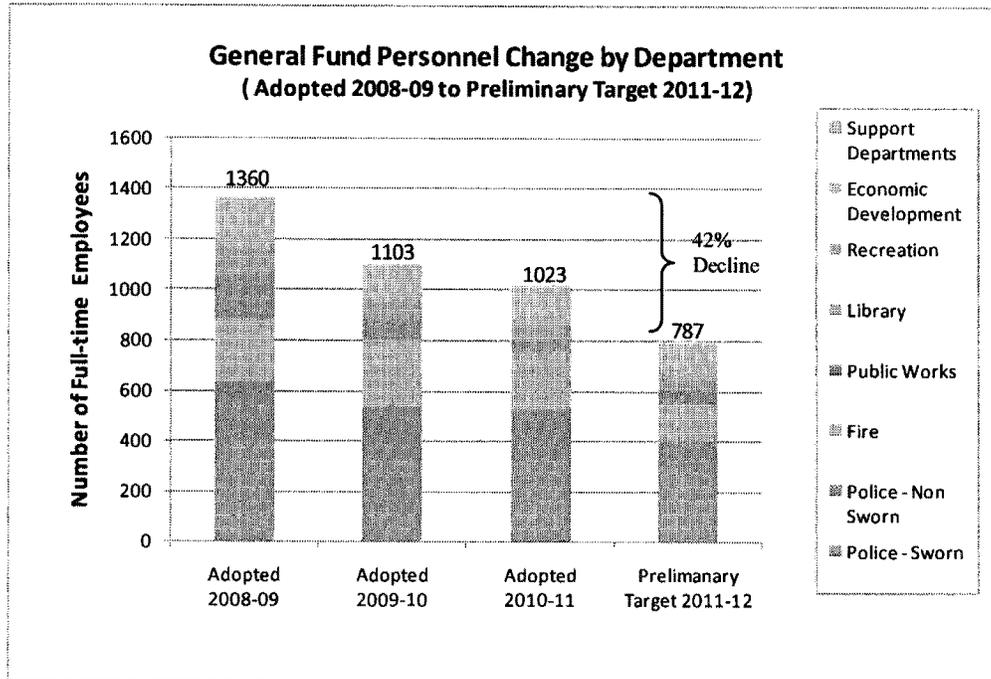
It is important to note that these reduction alternatives reflect the best effort of the program departments to meet budget targets provided by the City Manager's office, but they are not service levels or reductions endorsed by

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the departments. Based upon feedback received at the seven community town hall meetings held during the past month, many of these reductions present service level impacts unacceptable to the community.



### Police Department

Stockton has historically suffered with very high crime rates. For the 2010 calendar year, Stockton was once again #2 in violent crime per capita in the state behind Oakland. ***Any material cuts from the Police Department's current operating levels are untenable and will place the community at unacceptable risk.***

In 2008, the Stockton Police Department had 441 sworn officers. Even at that time, the goal was to increase the number of officers to approximately 550 following principles outlined in the report by Dr. Anthony Braga in order to raise the sworn level to a higher number to effectively deal with the increased population, increasing crime rate, and gang and narcotics problems that have plagued this city for decades. However, due to continuing budget reductions, by July 2010, sworn staff dropped to 342 with an additional 95 civilian support staff reduced as well.

A 2011-12 budget reduction of an additional \$14.2 million dollars will decimate the ability of personnel to handle the heavy call volume and violent crime of this

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city. Officers will be forced to respond to only in-progress and life threatening calls for service. The department will be forced into an emergency staffing mode, requiring staff to advise 300-400 citizens a day we can no longer respond to their calls for help. A reduction in sworn staffing to just 323, would make Stockton the lowest staffed Police Department in the entire nation for cities our size and larger. Additionally, the cuts would eliminate over 100 additional civilian support personnel, crippling any remaining efficiency of the Department's operations and assigning sworn personnel to current civilian duties.

To meet their budget target, the Police Department would need to eliminate or reduce programs and operations that would eliminate 123 full-time positions, including 19 sworn police officer positions. Programs identified for reduction or elimination include the following:

- Eliminate the Gang Unit and Gang Violence Suppression Unit comprised of 14 sworn police officer positions. Only funded Task Forces would remain, eliminating proactive high-visibility enforcement of gang issues, investigations and activities.
- Eliminate the Vice Unit which is responsible for investigating fraud, business crimes, prostitution, monitoring liquor stores for sales to minors, etc.
- Eliminate 2 Motorcycle Traffic Enforcement sworn police officers, reducing impacts on City-wide traffic issues and abilities to maintain traffic-related grants.
- Reduce sworn officer staffing in Personnel & Training Section, resulting in less training, recruiting, & backgrounding. Elimination of Rangemaster and other training unless mandated. Reduction to training in perishable skills such as emergency vehicle operation, shooting skills, and arrest and control tactics.
- Reduce Animal Control and Animal Shelter programs - Shift Animal Sheltering to County &/or non-profits within one year. Sworn personnel would handle emergency animal calls posing immediate threats. Revenues currently received from the County would be eliminated.
- Eliminate civilian staffing of Evidence Identification Section. Shift most evidence tech work to sworn officers to handle collection and processing of evidence; assigned evidence officers unable to handle calls-for-service.

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- Eliminate civilian staffing of the Property Room, replacing with sworn officers. Handling of evidence and other property will be performed by sworn staff, taking them from police calls. Would also require patrol officers to be trained in the highly important practices and laws governing evidence disposition, storage, and disposal.
- Eliminate all Community Service Officers from Patrol, Traffic, and Parking – causing severe reduction/elimination in responses to lower priority calls-for-service. Much of work shifted to sworn as available but sworn would mostly respond only to emergency in-progress or violence calls. Parking enforcement duties shifted to VIP's & Sworn (5 CSOs were General Fund & 3 were grant funded). Potential losses in revenues and reduced responses to traffic and parking complaints and issues. Eliminate 2 Motorcycle Traffic Enforcement Officers, reducing impacts on City-wide traffic issues and abilities to maintain traffic-related grants.
- Reduce Code Enforcement civilian staffing. Residential Rental Inspection program suspended & Code Enforcement will not improve from current level. Decreased responses to all types of Neighborhood Services issues, causing increased blight, decreased revenues for code violation fines.
- Eliminate Graffiti Abatement program. Graffiti will only be removed in areas where Landscape Maintenance Districts already fund removal. Adverse effects would be significantly increased blight.
- Reduce Civilian support for Investigations Division - Investigative support tasks shifted to sworn personnel, resulting in slower case processing and clearance; increased case loads would cause concentrating on violent crime over property crime.
- Reduction of Records Management Section civilian staffing, eliminating approximately 40% of civilian support staff in Records & Traffic sections. Mandated clerical work will shift to sworn personnel, taking sworn personnel from handling police calls.
- Reduce Civilian clerical and fiscal administrative staff. Some administration work shifted to sworn personnel for necessary grant management, etc. Reduced grant work to only mandated duties.

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- Reduce Crime Analysis Unit civilian staffing. Reduced ability to track & analyze crime & focus resources. Officers would be unable to rely on fresh intelligence with crime trends.
- Reduce Telecommunications and IT staffing, eliminating supervisors & 5 vacant dispatchers. Telecommunications supervision would shift to sworn personnel to handle as available, greatly reducing supervision of 9-1-1 call-takers. 50% Reduction of support staff for Police telecom and computer systems will increase system problems and data loss. Reduced efficiency from reduced utilization of technology.

**Fire Department**

Currently, the Fire Department is made up of 13 Engine Companies (which are also known as neighborhood fire stations), staffed with crews of 4, and 3 Truck Companies staffed with crews of 5. Reductions would first come from decreasing the crew size in both Engine and Truck Companies to crews of 3 and 4 respectively. This downsizing would not be sufficient to meet the reduction requirement, and therefore Companies would be closed. Truck 4, closed June 30, 2010, would remain closed and Truck Company 3 at 1116 E First Street; Engine Co. 1, at 1818 Fresno Avenue; Engine Co. 6, in Victory Park at 1501 Picardy Lane; and Engine Co. 7, at 1767 W Hammer Lane would also be closed. A two-person rescue vehicle would be placed in service, staffed with an Engineer and a Firefighter, and used to augment the remaining on-duty staffing. This rescue apparatus would be based at Fire Station 4, at 5525 Pacific Avenue near Delta College. An additional 1 Fire Fighter position per shift would be reduced from a truck or engine company as appropriate to meet the increased deficit projection of \$37 million. Under this level of budget reduction, daily staffing would be 41, a 41% decrease from the current daily staffing of 70 firefighters.

The station closures would require eliminating 81 firefighter positions (76 from layoffs and 5 from attrition through retirements), along with demotions of 19 captains and 12 engineers. In the Stockton Fire Department response area, which includes the City of Stockton and the contracting fire districts, the number of firefighters would decrease to 0.428 firefighters per 1,000 residents. In other San Joaquin valley cities, the average number of firefighters per thousand is 0.9. Call volume for other comparably sized cities averages 1798 calls per service year, where Stockton averages 3057 calls per service year. Since June 2009, the number of firefighter positions has decreased by 48, from 271 to 223. These additional cuts will leave 145 sworn staff, which is lower than the staffing level more than 50 years ago when 157 firefighters worked in fiscal 1957-58. The Stockton population was 25% of today's service population.

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Service impacts to the community are expected to include:

- Arriving fire engines will have to delay interior fire attacks until they can be supported by a second fire engine or truck company, and safely support interior firefighting operations as defined by NFPA 1710.
- While exact response times are not easily projected, response times to all types of emergencies will be extended.

**Public Works**

The Public Works Department reductions total \$1,017,600, and include the elimination of 6 full-time positions. The programs identified for reduction include facilities maintenance, park maintenance contract management, and tree maintenance. Since 2008 the Public Works Department has reduced programs, combined and reorganized programs, and outsourced some maintenance activities that have resulted in the elimination of 104 full-time positions from the General Fund.

Public Works' share of the FY 11-12 General Fund budget cuts was originally set at \$1,317,600 below baseline. Public Works first conducted a rigorous review of baseline assumptions which identified a savings of \$300,000, leaving \$1,017,600 in remaining reductions needed. These cuts must all come out of Parks, Trees, and Facilities, as those are the only areas that receive General Fund allocations. To meet this target, the Public works Department identifies the following reductions:

- Eliminate a vacant Crafts Maintenance Worker and two vacant Facilities Maintenance Worker positions, saving an additional \$218,200. No service impacts are identified because no occupied positions are affected.
- Eliminate a currently-filled Parks Supervisor position, and shift portions of another Parks Supervisor and two Senior Parks Workers (10% each) to (non-General Fund) Landscape Maintenance District accounts. The impact will be reduced oversight of the contractor that is currently maintaining the Parks (mowing, trimming, picking up trash, and cleaning restrooms). Also, an Associate Civil Engineer who is currently helping oversee Parks will assume the vacant Parks Superintendent position, and his vacated position will be eliminated. The savings will accrue to Parks, but the impact will be reduced ability to deliver transportation projects. This will generate a General Fund savings of \$264,000.

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- Under-fill the vacant (but funded) Arborist position with a Senior Tree Surgeon, then backfill the resulting vacancy with a Parks Worker employee, then eliminate the Parks Worker position. The net effect will be to save \$69,400 while losing the expertise of an Arborist. Losing this expertise will limit the Department's ability to provide technical assessments of potential tree hazards; however, it is deemed more important to retain a 5-person Tree crew. The Department also anticipates a reduction in contracted Tree services by \$75,000 (30%) – this will further impact the Department's ability to respond to major storms and other emergencies. Incidents will be prioritized based on the severity of the threat to public safety. These cuts are in addition to past cuts that have essentially eliminated our ongoing maintenance of our urban tree inventory.
- Reduce Heating Ventilation and Air Conditioning contractor budget.
- Reduce park irrigation by 10%.
- The final reductions will shift a portion of the charges for existing personnel to Gas Tax. Specifically, payroll costs for the Tree crew will be charged 50% to Gas Tax rather than the 21% presently charged, based on the fact that at least 50% of City trees are street trees and eligible for Gas Tax funding. This will remove from the General Fund 1.45 FTEs. Similarly, 20% each of two Engineering Technicians, and .67% of a Senior Parks Supervisor position, will be charged to Gas Tax. The former will administer federal aid transportation projects, the latter Community Enhancement street cleanup efforts. Total General Fund savings equals \$291,000, with an equal increase to the Gas Tax. This will further reduce critical maintenance efforts on local streets.

**Community Services – Library**

In this reduction scenario, public hours at the City's branch libraries would be cut from a high of 231 open hours per week in 2008-09 to a new low of 75 public hours per week in 2011-12. Staffing reductions would be among the deepest of City programs, from a high of 105 full time staff in 2008 to 46 in 2011-12, in addition to a cumulative reduction of 33 part-time staff. One of the City's 5 branches has already been closed.

New 2011-12 Library reductions total \$905,076 for the City portion of the Library system budget. This includes the 2011-12 elimination of 11 full-time positions and 2 part-time positions. The Library is also bracing for a reduction in funding from the State of California, which will reduce the library's ability to provide

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literacy and outreach services to the community. These new 2011-12 reductions represent a 27% reduction in open hours City-wide (from 103 hours per week to 75 hours per week). Hours at the Angelou and Weston Ranch libraries in south Stockton would be cut 32% more than the current schedule.

Less service - Not only will all four remaining City branches be open fewer hours, but a public services staff reduction of eight FTE (full time equivalents) will necessarily lead to longer wait times at all service points during operating hours. Also of great impact, both to the City and to our County libraries will be the reduction of three FTE support staff, resulting in longer processing times for new and donated books, movies, music, and magazines to become available to our customers.

Special events – Event, planning and professional marketing materials will not be available. Statistical collection, analysis, and reporting will be added to the workload of remaining staff, leading to productivity delays. Public technology training will cease to take place on a regular basis.

Inter-branch deliveries - Delivery of books and materials to City and County branches will take longer as a result of reduced part-time staff and delivery services to 49-99 member libraries will be eliminated

In short, these reductions, which represent a cumulative two thirds loss of public hours, would further devastate both the quantity and the quality of library services in the City.

**Community Services – Recreation**

The Community Services Department recreation program reductions total \$550,435. Programs reductions include recreation coordination; marketing and administrative support; reduction in open-to-public hours for Van Buskirk and Stribley community centers, and shifting the City cost for Sports Commission to the Tourism Business Improvement District.

These further reductions in funding for recreation services will impact community centers and the surrounding neighborhoods. This will require elimination of five FTE positions on top of the 21 full-time and 297 part-time positions that were eliminated since 2008. These positions provide direct services to the neighborhood around Van Buskirk Community Center and Park. Among the three new community centers, this facility has the least potential in generating additional revenue next fiscal year to help pay for its operating and maintenance costs. Operating hours at Van Buskirk Community Center will be reduced by 57% resulting to a reduction in operations at this center from 49 hours per week to 21 hours per week.

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Most affected will be the Conway Housing Community which is directly across the street from Van Buskirk Community Center. Seniors will lose the opportunity to socialize and exercise in the morning hours. Youth and teens will not have an opportunity to socialize and participate in activities until 3 p.m. and there will be no recreation opportunities on Fridays. This may increase negative behavior and vandalism around the community.

The Community Services Department would also reduce recreation staff at Arnold Rue Community Center. This position provides program coordination and support at the center and direct services to members of the surrounding community. Customer service will be reduced with workload distributed to the remaining staff.

One administrative support staff would also be eliminated. This will result in an increase of workload of the remaining administrative staff, which will result to inability to handle tasks in a timely manner. There will be an increase in backlog and longer processing time for requests. A total reduction of 4 full-time staff will result to slower service in Recreation and Administration Divisions.

The Sports Commission's annual support from the Recreation Fund will be eliminated. This action will reduce the funds available for sponsorships and staffing for conducting sports events in the City. The Commission is being encouraged to seek funding from the Stockton Convention and Visitor's Bureau to become an independent 501(c)(6) nonprofit organization.

**Charter Officer and Administration**

The collective charter officer and administrative units have reductions of \$1,250,761. This includes the elimination of 11 full-time positions and 7 part-time positions, which are in addition to the 28 full-time positions eliminated by these departments since 2008.

As with the program reductions discussed above, these reductions will likewise significantly impair organizational capacity to plan, administer, and serve customers during a period of rapid organizational downsize.

City Manager/City Council: Reductions eliminate two support and reception positions that jointly serve the City Council, City Manager, and City Attorney offices. Work load would be shared by other support staff, with overall reduced customer service by these executive offices.

City Clerk: Staff reductions will compromise the timeliness or possible elimination of the following processes and mandated duties:

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- Minutes preparation for the following will be eliminated: Planning Commission, Council Salary Setting Commission, Cultural Heritage Board, Climate Action Planning Advisory Committee, Measure W Committee, Development Oversight Commission, and the following Council Committees: Audit, Budget and Finance, Legislation & Environmental, Community Planning/Development
- Eliminates Boards & Commissions interviews, while continuing with recruitments
- Legal Notices, i.e. Public Hearings, Tracking of SEI statements and Ethics Training Certificates, preparation of City Council and Civil Service Commission record of meetings, Council meeting follow up, i.e. document recordation, bid bond processing

City Auditor: Reductions will reduce opportunities to identify & correct losses due to fraud, and weakens the city's overall ethical environment. Fewer hours will be available for audits of general fund activities, which may include revenue collection Activities, Police Department payroll, Fire payroll, and organizational analysis of delivering administrative support functions.

Administrative Services: Staff reductions will stall implementation of the City's new enterprise information system, which defers City-wide benefits from access to improved technology. Reductions will also limit capacity to administer the City's 48 bond issues and related investor relations, and may impair ability to timely comply with reporting requirements. Office support staff will also be reduced by one position. Finally, elimination of part-time workers will reduce 25% of disbursement unit capacity to provide timely vendor payments and ability to provide central controls over City disbursements.

Human Resources: Reductions will impair support to the Civil Service Commission; will reduce support to program departments in regards to the handling of labor issues including investigations, grievance processing and resolution; and will result in a city-wide loss of expertise in policy development and review also at a time of significant downsize to the City-wide organization.

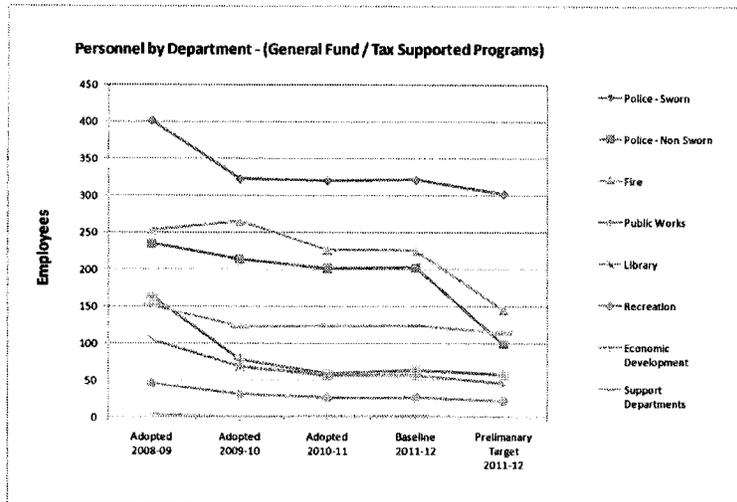
Other Administrative Functions: Reductions include loss of clerical support for Economic Development staff and City internet web page support for Public Information Officer. Funding reductions are also proposed for Community Partnership for Families.

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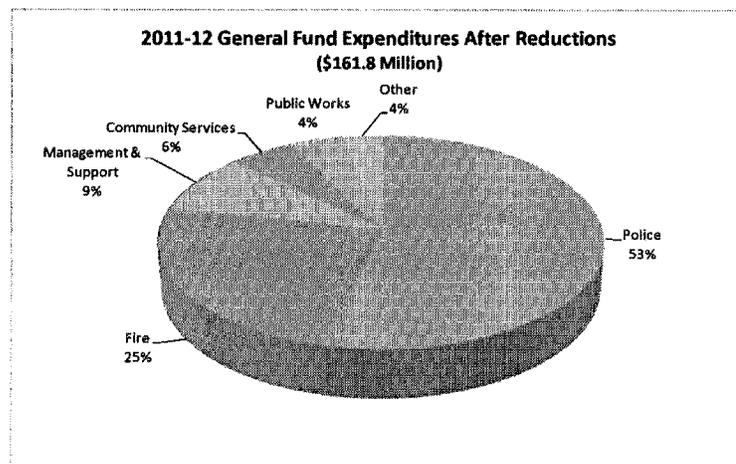
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**Total General Fund Reductions by Department**

Without emergency measures, the following chart further summarizes the required personnel reductions by department in the context of reductions already implemented over the past three years.



The following chart presents revised 2011-12 program allocations with implemented reduction proposals. Public Safety would still represent 78% of the budget in this scenario, demonstrating across-the board reductions.



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**C. June 2010 “Action Plan for Fiscal Sustainability” Establishes Long-Term Principles for Addressing and Reducing the City’s Escalating Labor and Benefit Costs**

Growth in the City’s expenditure trend will ultimately be addressed either through a reduction in staffing and service levels or a reduction in unit labor costs. Without the necessary cost reductions to match the lower revenue base, the future year estimated General Fund budget shortfalls widen from \$37 million in FY 2011-12 to \$54 million in FY 2014-15.

Staff believes that a significant portion of projected General Fund deficits could be resolved by using market compensation practices as a guide to negotiating future employee compensation. All City bargaining groups have been asked to meet with City negotiators to open their existing contracts. All groups declined to do so. The City then asked all groups with closed contracts to agree to meet on proposed concessions. While one group agreed to some concessions and another group has proposed some concessions, at this point in time most groups have refused to agree to any concessions, or have offered concessions with conditions that are unacceptable to the City. The following is a schedule of employee bargaining groups and their current contract expiration dates:

EMPLOYEE ORGANIZATION	BARGAINING UNIT	BUDGETED	
		FTE	EXPIRATION DATE
Operations & Maintenance	Miscellaneous Workers	138	currently open <sup>(1)</sup>
Operations & Maintenance Supervisory	Miscellaneous Workers	14	currently open <sup>(1)</sup>
Stockton Police Officers' Association	Police Officers	319	June 30, 2012
Stockton Police Management Association	Police Officers	20	June 30, 2012
International Association of Fire Fighters	Firefighters	226	June 30, 2011
Operating Engineers Local 3 Trades & Maintenance	Miscellaneous Workers	99	June 30, 2012
Stockton City Employees Association	Miscellaneous Workers	437	June 30, 2014
Mid-Management/Supervisory Level	Miscellaneous Workers	127	June 30, 2014
Total Budgeted FTE as of Dec 6, 2010		1380	

<sup>(1)</sup> The employees represented by this bargaining unit continue working at the City pursuant to the terms of the expired agreement. Negotiations are in progress and discussions regarding salary and benefit changes.

To address projected deficits and to create a road map going forward, last year, on June 22, 2010, the City Council adopted an action plan for fiscal sustainability. The plan identified long-term principles for addressing and reducing the City’s escalating labor and benefit costs. These action plans continue to set overall long-term employee compensation objectives.

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**Action Plan Principle 1:** The City shall reduce or eliminate “additional pay” categories.

**Action Plan Principle 2:** No side agreements or past practices shall be binding on the City unless the agreement or practice is approved in public by the City Council.

**Action Plan Principle 3:** The City’s labor agreements shall not provide for automatic wage adjustments that are premised on formulae or automatic cost of living inflators.

**Action Plan Principle 4:** The City will strive to have its labor agreements expire at the same time – particularly with public safety unions.

**Action Plan Principle 5:** The City shall require its employees to make reasonable contributions toward the cost of health care coverage provided throughout the City.

**Action Plan Principle 6:** The City shall offer one or more additional health care insurance plans. The City’s contributions shall be negotiated based on the lowest cost plan made available by the City.

**Action Plan Principle 7:** The City will require its employees to contribute a fair share of their pension costs.

**Action Plan Principle 8:** The City will establish vacation use work rules that limit the accumulation of vacation time and provide for use with management approval to ensure that the needs of the public take priority and overtime is minimized.

**Action Plan Principle 9:** The City will regain its management rights to supervise, manage, and direct its workforce.

**Action Plan Principle 10:** The City shall restructure its labor agreements to bring overtime obligations in line with the minimums required by the Fair Labor Standards Act.

**D. General Fund Reserves Depleted**

As discussed above in the 2010-11 section of this report, current projections indicate that General Fund unrestricted reserves as June 30, 2011 will be fully depleted. Further, the staffing and program reductions necessary to balance the 2011-12 General Fund budget within its annual revenues are expected to severely impair municipal services. Accordingly, emergency measures are proposed to balance the budget through other appropriate and lawful measures.

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**E. Other City Program Funds Also Face Economic Declines and Risks**

The same economic and labor cost factors that have driven General Fund deficits are also driving imbalances in other City program funds.

**1. Tax Supported Programs**

The following programs are supported by local tax revenues restricted for specific use. Revenue in each of these programs has seen the same declines as General Fund tax revenues discussed above.

- a. **Redevelopment** – Redevelopment Agency (Agency) revenues are derived from property taxes, and have fallen along with assessed property valuation. In one project area, annual revenue declined below the level needed to support debt service. Project cost overruns and numerous legal challenges, including multi-year settlement payment obligations, have been partially financed with City advances. In total, the Agency is over leveraged and the repayment of City advances is at risk until such time that future development might occur. Further, State legislation has been introduced that would abolish redevelopment agencies. The General Fund currently allocates approximately \$1 million in overhead costs to the Agency that is at risk if this legislation moves forward. Current mitigation plans for the agency include proposed staff reductions, cancellation of capital projects, and cancellation of debt with unspent bond proceeds.
- b. **Measure W** – Local voters have approved two sales tax measures restricted for specific use. This first measure, Measure W, supports supplemental public safety staffing. These revenues track with General Fund sales tax and have declined by 21% over the past six years. Measure W was approved by the voters with a five (5) year expenditure plan which proposed additional staffing of 45 sworn police officers and 45 firefighters. Measure W program guidelines also state that the program should maintain a contingency reserve of twenty-five percent of the annually budgeted revenue. Due to declining revenues and increased labor costs, the measure is not funding the level of staffing approved by the voters, which are currently staffed at 21 police officers and 20 firefighters. The program also had to use contingency reserves to maintain staffing in 2008-09, although it has gradually begun to rebuild the reserve requirement.
- c. **Measure K** – This second sales tax measure provides supplemental funding restricted for street maintenance programs. These revenues also track with General Fund sales tax. Due to declining revenues and

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the phase out of General Fund street maintenance support due to budget constraints, the City's baseline budget for its street resurfacing/bridge repair program has also declined. The City has been able to maintain its pavement condition index with a 60 to 70 (out of 100) rating over the past few years due to one-time Federal ARRA and State Proposition 1B funding. However, these outside sources are expiring. Beyond 2011-12, the City will be back to bare bones street maintenance budgets with limited Measure K, Gas Tax, and potential federal grants. As pavement conditions fall below a rating factor of 70, streets begin to rapidly deteriorate, requiring more expensive rehabilitation of the City's investment in its street infrastructure.

**2. Development Supported Programs**

Since 2002-03, the City has tracked current development fees and associated staff costs in a dedicated Development Service Fund. Revenues in this fund, which support the planning and permitting process, have declined along with the building permits activity discussed above. The program had been generating revenues in annual range of \$13.7 million in 2007-08 but and now \$8.5 million in 2009-10. Since 2008-09 the Community Development Department has reduced staffing by 46 positions. Eight additional positions have been identified for elimination in the 2011-12 budget. However, a core staff is needed to retain a base level of support ready to capture and service demand as economic conditions improve and development resumes.

In addition, development impact fees support the City's capital improvement program. Projects have been initiated, and in some cases contracted and completed, based upon the assumption of continued development fee revenues that have not been realized. Analysis is underway to address approximately \$25 million in capital commitments in excess of currently available resources. Proposed solutions include realignment of available grant funding, deferral, and cancelation of projects to bring the capital program back into alignment with current resources.

**3. Federal and State Grant Programs**

- a. **HUD/CDBG** – The City receives annual allocations from the U.S. Department of Housing and Urban Development (HUD) under its Community Development Block Grant (CDBG), HOME Investment Partnership (HOME), and Emergency Shelter Grant (ESG) programs. The Federal budget is not yet approved therefore allocations for these programs are estimated at this time; however, the City has been

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advised to plan for a 16.2% (\$752,952) reduction to CDBG and a 12% (\$264,974) reduction to the HOME allocation. For CDBG in particular a reduction of this magnitude has a significant impact as a result of the fund's obligation to pay \$2.2 million in debt service on two Section 108 Loans. The debt service accounts for 60% of the projected CDBG allocation. To mitigate the loss in funding, several reductions are recommended including the amount available to fund non-profit organizations providing public services to low to moderate income persons, the amount available for housing rehabilitation loans, and the amount available for administrative staffing of the programs. HUD has prescribed thresholds for administrative costs in both CDBG and HOME which limit the level of funding for staff support. The Housing Division would need to eliminate three positions to meet the reduced funding levels.

- b. **State** - The State budget proposal to realign state and local program responsibilities and change local economic development efforts creates risk to the City of Stockton's own fiscal plan and carries devastating impacts to the Stockton Redevelopment Agency and its ongoing potential as an engine for economic development.

The State budget proposal would have severe negative impacts on Stockton, including loss of Citizens Option for Public Safety (COPS) grant funds, state funding for the Stockton-San Joaquin County Library system, and Redevelopment Agency funding for two fully funded and seventeen partially funded positions. The General Fund may have to absorb \$700,000 to \$1,200,000 for jail booking/jail access fees which are currently reimbursed by the State. The State budget would also eliminate Enterprise Zone incentives used by the City to create jobs and stimulate business investment in economically distressed areas.

**4. User Fee Programs**

The City operates a variety of programs that are supported by user fees. However, a number of these programs currently depend upon supplemental operating support from the General Fund. Accordingly, any employee cost reductions in these programs would in turn benefit the General Fund.

- a. The Library and Recreation programs rely on substantial General Fund operating contributions. As discussed above, these programs have and are expected to continue to downsize along with other General Fund programs.

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- b. The Golf, Marina, and Arena Enterprise Funds also currently operate with deficits supported by the General Fund. In each case, operational changes have been made or are under current evaluation to reduce their reliance on the General Fund. For example, a new Arena operator has been under contract since February. Golf and Marina operations are also under review to identify long-term solutions to phase out General Fund support. However, in the short-term, 2011-12 General Fund contributions are anticipated to preserve these City assets.
- c. The City's administrative functions are scheduled to relocate to a different downtown office building in the coming year. The City's current 85-year old City Hall is deteriorating, leaking, and faces increasing major maintenance challenges. In the interim, however, until offices are relocated, the vacant space has been leased to tenants. Tenant revenues substantially underwrite the annual debt service and carrying costs of the building. The building was financed with variable rate debt that is now at risk due to market conditions impacting both the City's bond insurance and liquidity providers.

**d. Utilities**

The City operates water, wastewater, and stormwater utility systems. Although these programs are fee supported, each has fiscal challenges to maintain their extensive capital infrastructure systems throughout the City.

**Stormwater Annual Revenues of \$5 million Fall Short of \$14 Million  
Annual Funding Requirements**

The City provides stormwater services under permit from the State Water Resources Control Board which establishes system performance criteria. A recent rate study identified \$14 million in annual funding requirements to appropriately maintain the system, while current revenues are \$5 million per year, or \$9 million short of requirements. If the system deteriorates and the City's discharge into local rivers exceeds state pollution criteria, fines can be assessed at \$25,000 per day or \$9 million per year. In addition, the system owes the General Fund \$10 million for past amounts previously advanced to sustain the system. While the system's operating and capital budgets have been curtailed within the \$5 million in available revenues, system integrity cannot be maintained at this funding level. The City's General Fund is at risk for permit violations and will ultimately be required to fund system improvements to the extent that user fees are insufficient. Although the system is supported by user fees, the California constitution requires voter approval of any increases to established storm

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water fees. A recent ballot measure put forth to raise fees in November 2010 failed to achieve voter support.

**Water System Draws \$12 million from Reserves to Sustain Debt and Capital Program**

The City's water system has embarked upon a \$200 million capital program to provide a reliable source of surface water that will reduce the amount of ground water draw down with the objective of protecting the region's underground aquifers. \$228 million in debt has been issued to support this project, which has driven annual debt service requirements to approximately \$20 million<sup>2</sup> per year, or approximately half of the system's \$45 million<sup>3</sup> in annual revenues. Despite adoption of a multi-year, double digit rate increase program, including 12% user rate increases in 2010-11 and 2011-12, the system is projected to draw \$12 million from reserves in 2011-12, which is approximately 25% of annual revenues. This will leave approximately \$19 million in operating reserves available for the water system. The system's planned capital funding has been impaired by a significant decline in connection and development impact fees as regional development has been impacted by the regional economy. While still operating within available cash reserves, system debt requirements will increase in 2012-13 as principal starts to amortize on the recent bond issue.

**Waste Water System Also Projected to Operate at 2011-12 Deficit**

The City's Wastewater system is also projected to draw \$4 million from reserves in 2011-12, or approximately 8% of estimated annual system revenues of \$50 million. This will leave approximately \$17 million in operating reserves available for the wastewater system. As with the stormwater system, the City operates under a discharge permit issued by the State Water Resource Control Board. The City's wastewater plant was built in the 1970s, and has had only marginal updates over the past 40 years. The City is subject to fines for not achieving pollution, bacteria, and other discharge criteria, and was recently fined \$63,000 for ammonia discharge violations. A capital program estimated at approximately \$150 million has been identified to modernize the plant and other system infrastructure, but a financing plan has not been identified. After falling out

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<sup>2</sup> For budgeting purposes, water system debt service is presented gross, before Federal Build America Bond reimbursements and capitalized interest funded from bond proceeds.

<sup>3</sup>For budgeting purposes, water system revenue includes Federal Build America Bond reimbursements and development/connection fees.

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of compliance, the City recently regained the debt service coverage ratio required by debt covenants in its existing outstanding revenue bonds.

**Present Situation****A. The City's Credit Rating Has Been Downgraded During the Past Year;  
Budget Solutions Are Key to Maintaining and Improving Future Ratings****a. Standard and Poors**

On June 16, 2010, Standard & Poor's Ratings Services ("S&P") lowered its issuer credit rating for the City to 'A' from 'A+'. In addition, S&P lowered their long-term rating and underlying rating to 'A-' from 'A' on outstanding certificates of participation (COPs), lease revenue bonds, and pension obligation bonds (POBs) for which the City is the obligor.

In their rating report, S&P stated that lowered ratings reflected their assessment of stress on the city's financial position that they expected would continue through fiscal 2011 due to adverse economic conditions that have affected tax revenues; and the city's difficulty in achieving agreements with its public safety bargaining units to reduce expenditures.

**b. Moody's**

On January 20, 2011, Moody's downgraded the City's issuer rating from to A1 from Aa3. Further, The City's taxable pension obligation bonds, 2007 Series A&B, was downgraded to A2 from A1, and its Lease Revenue Refunding Bonds, 2006 Series A, was downgraded to A3 from A2.

In its rating report, Moody's listed challenges including a weak economy, the City's narrow financial position, and its variable rate debt. Listed strengths included management's efforts to address structural budget issues.

**c. 2007 Variable Rate Demand Lease Revenue Bonds**

In 2007, the City issued \$40 million in variable rate bonds to acquire the building at 400 East Main in downtown Stockton. The bonds are insured by Assured Guaranty. Dexia provides liquidity through a Standby Bond Purchase Agreement.

Standard & Poor's Corporation (S&P) has signaled new rating criteria and possible rating actions on Assured Guaranty. Further, on March 2, 2011

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S&P changed their rating outlook on Dexia from "stable" to "negative", and on March 30, 2011 Moody's Investors Service placed the long term ratings of Dexia on "review for possible downgrade". Accordingly, both the bond insurer and liquidity provider on this bond issue face challenged credit ratings which could ultimately impact the City's liquidity and the variable interest rates paid on these bonds.

Should the rating on Assured Guaranty drop to BBB+ or lower, the liquidity provider Dexia will have the option to remove liquidity support from the Bonds. Withdrawal of the liquidity provider would have a significant impact on the amortization schedule and the interest rates on the Bonds.

Any further negative rating actions on these companies could have a further deleterious effect on the City's interest rates for these variable rate bonds.

Rating downgrades increase the City's current and future debt financing interest costs. Both the long-term cost of the City's capital program and the short-term cost of its current variable rate financing programs will be best managed through prompt implementation of budget balancing solutions.

**B. City Council will Consider the Proposed Budget, Conduct Budget Workshops, and Adopt Budget during upcoming Sessions**

Council has a limited window in which to address its projected 2011-12 budget deficits. A balanced budget must be adopted by July 1st to enable the internal cash flow borrowing necessary to continue operations. The following City Council sessions have been scheduled to consider and adopt the 2011-12 budget:

June 7	Presentation of Proposed Budget
June 8, 14	Budget Workshops
June 21	Budget Adoption and Consideration of Implementing Emergency Measures

During this window, the City will continue to meet, discuss, and negotiate with employee groups with an objective to achieve employee concessions and reductions in labor costs sufficient to balance the budget.

May 17, 2011

**2010-11 EMERGENCY MEASURES AND DECLARING A STATE OF EMERGENCY  
BASED ON FISCAL CIRCUMSTANCES FOR FISCAL YEAR 2011-12**

(Page 48)

Absent employee concessions, the proposed City Council resolution authorizes the City Manager to propose a balanced budget, using any legally available methods available.

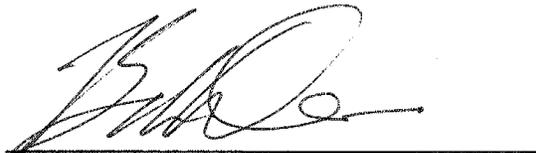
**IV. Conclusion: The City Manager Recommends that the City Council Continue its 2010-11 Emergency and Further Declare An Emergency for 2011-12**

In light of the continued 2010-11 budget shortfall, the City Manager recommends that the City Council continue the emergency it adopted on May 26, 2010. Without the cost savings generated through the continuation of emergency measures, the General Fund would not have the resources necessary to continue services through the end of the fiscal year.

Further, since deeper cuts in City services necessary to balance the 2011-12 budget are untenable and will place the community at unacceptable risk, the City Manager further recommends that the City Council declare an emergency based on fiscal circumstances and direct the City Manager to take appropriate and lawful measures to adopt a balanced budget for fiscal year 2011-12.

Finally, the City Manager directs the City's labor negotiators to continue negotiations with City Unions to avert or minimize the necessity of using emergency powers.

Respectfully submitted,



BOB DEIS  
CITY MANAGER

BD: SM

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Resolution No. \_\_\_\_\_

## STOCKTON CITY COUNCIL

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### RESOLUTION CONTINUING EMERGENCY MEASURES ADOPTED IN RESOLUTION NOS. 010-0200 AND 010-0201

By City Council Resolution No. 10-0166, adopted May 26, 2010, the City of Stockton (City) declared a state of emergency based on fiscal circumstances; and

By City Council Resolution Nos. 10-0200 and 10-0201, adopted June 22, 2010, emergency measures necessary to achieve a balanced budget for the 2010-11 fiscal year were implemented pursuant to the declared state of emergency; and

By City Council Resolution No. 11-0039, adopted on February 15, 2011, the City authorized these emergency measures to continue, subject to ongoing negotiations with the affected labor unions; and

Because the City's public safety labor unions have not made sufficient sustainable economic concessions and legal actions brought by the unions related to the imposed emergency measures are still unresolved; and

Because the City's General Fund revenue, expenditure, and cash flow projections for the remainder of fiscal year 2010-11 have not improved through the third quarter ending March 31, 2011, and termination or modification of the emergency measures would result in an unacceptable negative cash position at fiscal year end; and

Due to the General Fund structural budget deficits projected for subsequent fiscal years along with significant unfunded actuarial liabilities for retiree health care costs; now, therefore,

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

1. The emergency measures adopted by City Council Resolution Nos. 10-0200 and 10-0201 on June 22, 2010, and implemented by the City Manager on July 1, 2010, are hereby authorized to continue, subject to ongoing negotiations with the affected labor unions.

City Atty

Review

Date May 11, 2011

2. The City Manager is hereby authorized to take whatever actions are appropriate to carry out the purpose and intent of this resolution.

PASSED, APPROVED, and ADOPTED \_\_\_\_\_

\_\_\_\_\_  
ANN JOHNSTON, Mayor  
of the City of Stockton

ATTEST:

\_\_\_\_\_  
KATHERINE GONG MEISSNER  
City Clerk of the City of Stockton

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Resolution No. \_\_\_\_\_

## STOCKTON CITY COUNCIL

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### RESOLUTION DECLARING A CONTINUED STATE OF EMERGENCY BASED ON FISCAL CIRCUMSTANCES, MAKING CERTAIN FINDINGS, AND DIRECTING THE CITY MANAGER TO TAKE APPROPRIATE AND LAWFUL MEASURES TO ACHIEVE A BALANCED BUDGET FOR FISCAL YEAR 2011-2012

The City of Stockton (City) Charter requires that the City Council adopt a balanced budget at the outset of each fiscal year, which commences on July 1; and

Under the California Constitution, the City Council has plenary authority to control the City's municipal affairs, including without limitation establishing and regulating wages and benefits of City employees; and

By City Council Resolution No. 10-0166, adopted May 26, 2010, the City declared a state of emergency based on fiscal circumstances; and

By City Council Resolution Nos. 10-0200 and 10-0201, adopted June 22, 2010, emergency measures necessary to achieve a balanced budget for the 2010-11 fiscal year were implemented pursuant to the declared state of emergency; and

The City continues to face a severe and chronic fiscal crisis that jeopardizes the delivery of essential public services; and

The City faces a significant shortfall in the coming fiscal year, and the budget gap cannot be closed without severely compromising public safety services; and

The City's labor unions to date have not made sufficient concessions in connection with the 2011-2012 fiscal year to enable the City to achieve a balanced budget, while preserving services that are essential to the health and well-being of the City's citizens; and

The City possesses the authority to declare an emergency and to take appropriate and targeted measures to ensure the health, safety, and well-being of its citizens; and

By this declaration of continuing fiscal emergency, the City seeks to achieve economic, staffing, and other reforms pending negotiations with all affected labor unions; and

The City has no other reasonable or viable alternatives to this declaration; and

The City wishes to acknowledge and thank those labor unions who have stepped forward to make concessions, but there have been insufficient concessions to avert a fiscal crisis in the upcoming fiscal year; and

City Atty

Review \_\_\_\_\_

Date May 11, 2011

The City remains fully committed to negotiating in good faith with its labor unions in an effort to resolve and avert a continuing fiscal crisis in fiscal year 2011-2012, and the City continues to invite its labor unions to negotiate pursuant to the Meyers-Milias-Brown Act (MMBA); and

Based on the accompanying staff report, all appendices, and attachments thereto, the information presented to the Council in relation to its consideration of priorities for the 2011-2012 budget, related evidence, and financial analyses and all further material, information, and matters discussed by and revealed to the Council in its consideration of this matter, including the predecessor related Resolution Nos. 10-0166, 10-0200, and 10-0201 (and staff reports), the City Council hereby finds and declares a continuing emergency jeopardizing the health, safety, and overall well-being of its citizens based on fiscal circumstances, makes certain findings, and takes certain actions as specified below; now, therefore,

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

1. The City Council finds the above recitals to be true.
2. The City Council finds that the City continues to be immersed in an unprecedented and chronic fiscal crisis that has drastically reduced the City's financial resources and devastated its ability to provide for the basic needs of its citizens, thereby creating an imminent threat to the health, safety, and well-being of the City and its citizens.
3. The City Council finds that the City continues to be hampered by certain labor agreements that impose significant burdens on the City's financial resources, and which have made it impossible to balance the upcoming budget without critically jeopardizing the City's ability to deliver basic and necessary services.
4. The City Council finds that the fiscal crisis unacceptably increases risks to Stockton citizens by: necessitating the layoffs of police officers at a time when the City continues to experience high crime rates; and necessitating cuts to other critical public services that are vital to maintaining a community that is safe and healthful.
5. The City Council finds that the present circumstances constitute an "emergency" within the definition of memoranda of understanding (MOU) currently in place, and the City Council hereby finds that the present financial crisis is, and shall remain for the foreseeable future, a condition of emergency within the context of all of the current labor agreements.
6. The City shall continue to invite labor to meet and confer pursuant to the MMBA in an effort to reach agreement before the budget is due.

7. The City Manager is hereby authorized and directed to take appropriate and lawful measures that will achieve a balanced budget for fiscal year 2011-2012, including any changes to existing labor agreements determined necessary by the City Manager and limited to the duration of the fiscal crisis. The final budget shall remain subject to approval by the City Council.

PASSED, APPROVED, and ADOPTED \_\_\_\_\_.

\_\_\_\_\_  
ANN JOHNSTON, Mayor  
of the City of Stockton

ATTEST:

\_\_\_\_\_  
KATHERINE GONG MEISSNER  
City Clerk of the City of Stockton

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11-0113

Resolution No.

## STOCKTON CITY COUNCIL

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### RESOLUTION CONTINUING EMERGENCY MEASURES ADOPTED IN RESOLUTION NOS. 010-0200 AND 010-0201

By City Council Resolution No. 10-0166, adopted May 26, 2010, the City of Stockton (City) declared a state of emergency based on fiscal circumstances; and

By City Council Resolution Nos. 10-0200 and 10-0201, adopted June 22, 2010, emergency measures necessary to achieve a balanced budget for the 2010-11 fiscal year were implemented pursuant to the declared state of emergency; and

By City Council Resolution No. 11-0039, adopted on February 15, 2011, the City authorized these emergency measures to continue, subject to ongoing negotiations with the affected labor unions; and

Because the City's public safety labor unions have not made sufficient sustainable economic concessions and legal actions brought by the unions related to the imposed emergency measures are still unresolved; and

Because the City's General Fund revenue, expenditure, and cash flow projections for the remainder of fiscal year 2010-11 have not improved through the third quarter ending March 31, 2011, and termination or modification of the emergency measures would result in an unacceptable negative cash position at fiscal year end; and

Due to the General Fund structural budget deficits projected for subsequent fiscal years along with significant unfunded actuarial liabilities for retiree health care costs; now, therefore,

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

1. The emergency measures adopted by City Council Resolution Nos. 10-0200 and 10-0201 on June 22, 2010, and implemented by the City Manager on July 1, 2010, are hereby authorized to continue, subject to ongoing negotiations with the affected labor unions.

City Atty

Review

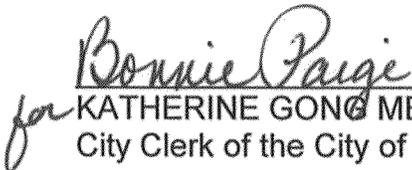
Date May 11, 2011

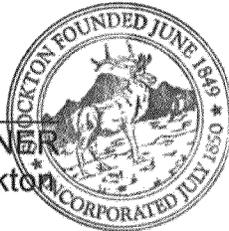
2. The City Manager is hereby authorized to take whatever actions are appropriate to carry out the purpose and intent of this resolution.

PASSED, APPROVED, and ADOPTED MAY 17 2011

  
ANN JOHNSTON, Mayor  
of the City of Stockton

ATTEST:

  
for KATHERINE GONG MEISSNER  
City Clerk of the City of Stockton



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11-0114

Resolution No.

## STOCKTON CITY COUNCIL

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### RESOLUTION DECLARING A CONTINUED STATE OF EMERGENCY BASED ON FISCAL CIRCUMSTANCES, MAKING CERTAIN FINDINGS, AND DIRECTING THE CITY MANAGER TO TAKE APPROPRIATE AND LAWFUL MEASURES TO ACHIEVE A BALANCED BUDGET FOR FISCAL YEAR 2011-2012

The City of Stockton (City) Charter requires that the City Council adopt a balanced budget at the outset of each fiscal year, which commences on July 1; and

Under the California Constitution, the City Council has plenary authority to control the City's municipal affairs, including without limitation establishing and regulating wages and benefits of City employees; and

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The City continues to face a severe and chronic fiscal crisis that jeopardizes the delivery of essential public services; and

The City faces a significant shortfall in the coming fiscal year, and the budget gap cannot be closed without severely compromising public safety services; and

The City's labor unions to date have not made sufficient concessions in connection with the 2011-2012 fiscal year to enable the City to achieve a balanced budget, while preserving services that are essential to the health and well-being of the City's citizens; and

The City possesses the authority to declare an emergency and to take appropriate and targeted measures to ensure the health, safety, and well-being of its citizens; and

By this declaration of continuing fiscal emergency, the City seeks to achieve economic, staffing, and other reforms pending negotiations with all affected labor unions; and

The City has no other reasonable or viable alternatives to this declaration; and

The City wishes to acknowledge and thank those labor unions who have stepped forward to make concessions, but there have been insufficient concessions to avert a fiscal crisis in the upcoming fiscal year; and

City Atty

Review

Date May 11, 2011

The City remains fully committed to negotiating in good faith with its labor unions in an effort to resolve and avert a continuing fiscal crisis in fiscal year 2011-2012, and the City continues to invite its labor unions to negotiate pursuant to the Meyers-Milias-Brown Act (MMBA); and

Based on the accompanying staff report, all appendices, and attachments thereto, the information presented to the Council in relation to its consideration of priorities for the 2011-2012 budget, related evidence, and financial analyses and all further material, information, and matters discussed by and revealed to the Council in its consideration of this matter, including the predecessor related Resolution Nos. 10-0166, 10-0200, and 10-0201 (and staff reports), the City Council hereby finds and declares a continuing emergency jeopardizing the health, safety, and overall well-being of its citizens based on fiscal circumstances, makes certain findings, and takes certain actions as specified below; now, therefore,

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

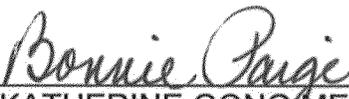
1. The City Council finds the above recitals to be true.
2. The City Council finds that the City continues to be immersed in an unprecedented and chronic fiscal crisis that has drastically reduced the City's financial resources and devastated its ability to provide for the basic needs of its citizens, thereby creating an imminent threat to the health, safety, and well-being of the City and its citizens.
3. The City Council finds that the City continues to be hampered by certain labor agreements that impose significant burdens on the City's financial resources, and which have made it impossible to balance the upcoming budget without critically jeopardizing the City's ability to deliver basic and necessary services.
4. The City Council finds that the fiscal crisis unacceptably increases risks to Stockton citizens by: necessitating the layoffs of police officers at a time when the City continues to experience high crime rates; and necessitating cuts to other critical public services that are vital to maintaining a community that is safe and healthful.
5. The City Council finds that the present circumstances constitute an "emergency" within the definition of memoranda of understanding (MOU) currently in place, and the City Council hereby finds that the present financial crisis is, and shall remain for the foreseeable future, a condition of emergency within the context of all of the current labor agreements.
6. The City shall continue to invite labor to meet and confer pursuant to the MMBA in an effort to reach agreement before the budget is due.

7. The City Manager is hereby authorized and directed to take appropriate and lawful measures that will achieve a balanced budget for fiscal year 2011-2012, including any changes to existing labor agreements determined necessary by the City Manager and limited to the duration of the fiscal crisis. The final budget shall remain subject to approval by the City Council.

PASSED, APPROVED, and ADOPTED MAY 17 2011.

  
ANN JOHNSTON, Mayor  
of the City of Stockton

ATTEST:

*for*   
KATHERINE GONGMEISSNER  
City Clerk of the City of Stockton



# Exhibit N

**NEW BUSINESS**

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AGENDA ITEM 15.4

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August 23, 2011

TO: Mayor and City Council

FROM: Susan Mayer, Chief Financial Officer

SUBJECT: **FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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### RECOMMENDATION

It is recommended that the City Council adopt a resolution amending the Fiscal Year 2010-11 budget and approving various inter-fund transfers and settlement of inter-fund loans to prepare for the closing of the City's general ledger for the fiscal year ended June 30, 2011.

### Summary

The City Council has targeted "Fiscal Sustainability – Getting Our Fiscal House in Order" as one its four goals for 2011. One of the strategic initiatives developed to support this goal was a comprehensive business analysis of the City's funds and programs to assess current financial condition, liquidity, and program sustainability. This business analysis was a key process in the development of the 2011-12 budget and continues as the City prepares for the 2010-11 year-end close and publication of audited financial statements.

This report provides a budget update for 2010-11 and proposes a list of actions to address issues identified during the business analysis review of City programs. The City Manager made reference to the City's unfortunate past practice of complex inter-fund loans and deficit spending in his 2011-12 Budget Message and in his oral presentation to City Council during the 2011-12 budget workshop. Proposed actions in this report recognize and address programs with deficits, unwind a series of inter-fund loans, and consolidate unrestricted cash balances. This report takes actions to address these issues and continues positive, incremental steps to improve clarity about the overall fiscal condition of the City.

Moving forward into 2011-12, the City's budget condition continues to be impacted by external factors that challenge our ability to balance services within available revenues. This report updates the City Council on four significant events that have transpired since the adoption of the 2011-12 budget, including preliminary County Assessor results for the 2011-12 assessed property value tax base; the State's elimination of an important revenue allocation (Vehicle License Fee); further State action to eliminate redevelopment agencies; and the status of various employee labor contracts, including

August 23, 2011

**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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(Page 2)

a recent fire arbitration ruling. Each of these four items put negative pressure on the City's General Fund budget. Despite these setbacks, the City remains committed to addressing challenges as they arise and recognizes its responsibility to continue to adjust service levels and costs as necessary to operate within available revenues.

**DISCUSSION****Background*****2010-11 Budget Update***

The following General Fund 2010-11 budget update provides City Council with the status of this important source of discretionary funds and context for the following series of proposed financial transactions. It is still early in the 2010-11 year-end close process. Final tax and grant revenues are not expected until the end of September, 2011. We anticipate returning to City Council in November with an updated report on final 2010-11 results.

Overall, preliminary 2010-11 General Fund results indicate that operating costs have continued to exceed revenues. A series of one-time inter-fund transfers to and from the General Fund are identified with a net result of a June 30, 2011 General Fund balance that is currently estimated at \$722,000. This ending balance will continue to fluctuate as final tax revenues, grant reimbursements, and vendor payments are recorded. Prospectively, the City has implemented significant service and labor cost structure reductions for 2011-12 to balance its operations going forward. Staff is working on a plan to address the emerging issues impacting the recently adopted 2011-12 budget.

Revenue projections have improved by approximately \$700,000 to \$163 million since the last 2010-11 projection presented to City Council on May 17, 2011. Sales tax results for the quarter ending in March are an encouraging 3% above the comparable quarter in the prior year and have generated \$324,000 of this projection increase.

Program expenditures continue to track favorable to budget, but have eroded about \$300,000 since the last projection to \$167 million.

A series of one-time transactions are proposed to address uncollectible receivables and program deficits outside the General Fund. To cover these losses, with the assistance of outside counsel, we have identified a long-term liability that can be removed from the General Fund. This is a liability that is due from the General Fund to the Water and Wastewater Funds that is payable from future revenues and not from current resources.

August 23, 2011

**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

(Page 3)

This liability is more appropriately recorded in the City's Debt Service Fund. With this change, the General Fund fund balance available for budgeting purposes will increase and better reflect the General Fund's current position. A detailed listing of proposed 2010-11 transactions are discussed in detail later in this report.

General Fund Projection 2010-11 As of 7-25-11	
Beginning Balance	<u>\$ 1,198,000</u>
Operating Activity	
Revenues	163,766,250
Expenditures	(167,169,900)
Encumbrance/other reserves	<u>1,112,907</u>
	(2,290,743)
One-time items	
Fire District Collection Risk	(1,047,000)
Transfer to Compensated Absence Fund	(4,000,000)
Transfers to cover other program deficits	(2,055,000)
Transfer MUD loan to debt service fund	8,417,000
Parking Fund loan repayment	<u>500,000</u>
	1,815,000
Net Annual Activity, including one-time items	<u>(475,743)</u>
Ending Balance	<u><u>\$ 722,257</u></u>

**2011-12 Budget Update**

Four significant events have transpired since City Council adopted its 2011-12 budget on June 21, 2011 that continue to challenge the City to maintain a balanced budget going forward into the new fiscal year.

1. Property Values and Related General Fund Property Tax Revenue

The County Assessor has released preliminary results for the January 2011 property valuations that are used to assess property taxes for the 2011-12 fiscal year. Results indicate a County-wide decline of 4% from the prior year. Results for the City of Stockton as a whole have declined 5.3% from the prior year. These results represent a fourth year of decline. The revenue impact to the City is shared between the Redevelopment Agency and the City's General Fund. Details on this split are not yet

August 23, 2011

**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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(Page 4)

available from the County. However, the scope of this value decline is likely to have a significant impact on projected General Fund revenues. The 2011-12 property tax revenue budget had been developed with an assumption of stabilizing property values based upon projections provided by the City's contract tax consultant and from direct discussion with the County Assessor as recently as late April. These results have deteriorated from the last information available. It is likely that the General Fund budget will need to absorb a lower, revised revenue projection. A full loss of 5% in the General Fund would represent \$2 million in lower revenues. The final split between the Redevelopment Agency and the City is anticipated within the next month, at which time we can better measure the likely impact to the General Fund.

**2. State Budget Impact – Vehicle License Fees and COPS Safety Grant**

In the last hours before enacting its annual budget at the end of June, the State took unanticipated action to suspend local agency allocations of residual Vehicle License Fees that have been directed to cities and counties since 2004. The City's revenue budget loss from this elimination is \$1,047,000. This loss has been partially offset by restoration of the "COPS" public safety grant program that had just been cut in earlier state budget proposals. This new safety grant restores about half, or \$458,000, of restricted funds to the City. The City is exploring how it might use this grant to sustain its depleted Police Department budget.

**3. Statewide Elimination of Redevelopment Agencies (or "Pay to Play")**

The State has also passed legislation in conjunction with its annual budget to eliminate prospective Redevelopment activities. This legislation has been challenged in a lawsuit filed by the California Redevelopment Association and is unlikely to be resolved for some time. The City cannot at this point predict what impact the loss of its redevelopment agency would have on the General Fund of the City. A study session was held on August 16, 2011 presenting the City Council with details about the impact of this State action and options available to the Agency and City as a potential successor organization.

**4. Status of Labor Contracts and Fire Arbitration Ruling**

The City continues to negotiate with its employee organizations over salary and benefit concessions for the 2011-12 fiscal year. Voluntary agreements have now been ratified with all groups except Stockton Police Officers' Association (SPOA), Stockton City Employee's Association (SCEA), and Fire.

August 23, 2011

**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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(Page 5)

The City reached a tentative agreement with the Fire and Fire Management groups that settled both 2010-11 and prospective compensation terms. The Fire Management group ratified and City Council approved their Memorandum of Understanding on August 9, 2011. Unfortunately the Fire (non-management) group failed to ratify. On August 9, 2011 Council approved implementation of the City's Last, Best and Final offer, effective August 1, 2011.

On July 22, 2011, the arbitrator in the dispute between the City and the Stockton Professional Firefighters Local 456 has ruled with a split decision about employee compensation during the 2010-11 Fiscal Year. The Arbitrator upheld the City's actions to close a truck company, concluding that there were "extraordinary circumstances" justifying the closure. However, the City did not prevail on a second point, in which the Arbitrator concluded that at the time of the Council decision not to grant union raises, the "emergency" was not "imminent" in June 2010 as he interpreted the labor contract. The Arbitrator did not impose any damages, but ordered the parties to attempt to resolve the issue of remedy. The City's rights under the Constitution are subject to parallel litigation that remains to be considered by the Superior Court. At this time, the City is unable to predict the total amount of one-time back pay that it may owe as a remedy in this dispute.

The City's initial estimate for the potential liability from the arbitrator's ruling was \$4 million in one-time retroactive 2010-11 compensation. Staff is working to refine this estimate now that final fiscal year 2010-2011 payroll costs are available. The ruling has no future impact to 2011-12, since the Fire contract expired June 30, 2011. Should the City exhaust its legal remedies and need to make this \$4 million payment, the Fire Department budget would anticipate further offsetting service reductions and additional negotiated labor cost reductions to continue to operate within its \$40 million annual budget.

***Proposed 2010-11 Budget and Loan Actions***

Returning to 2010-11, the following is a discussion of specific proposed 2010-11 actions.

**1) Labor negotiations and related litigation costs**

Labor negotiations and related litigation costs are expected to reach \$1.9 million for the 2010-11 fiscal year. Costs include negotiating efforts with 10 bargaining groups, essentially at the same time, to achieve the \$25 million in annual General Fund labor cost reductions incorporated into the 2011-12 budget in lieu of severe service

August 23, 2011

**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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(Page 6)

reductions. Costs also include defense of City against of police and fire employee objections to the 2010-11 emergency measures, including a very expensive fire arbitration.

The proposed budget action approves the transfer of current 2010-11 appropriations from anticipated Police and Fire department savings into the Non-department budget account designated to track these labor litigation costs. The proposed action is a transfer of existing appropriations between departments and is not a net increase to expenditure authority.

The following is the proposed budget action:

General Fund #010 – Police and Fire Departments	
Transfer expenditure budget to non-department accounts, not to exceed realized 2010-11 savings	(\$1,900,000)
General Fund #010 - Non-Department	
Increase expenditure budget – Labor Litigation	\$1,900,000

2) Billing for Fire Services Provided to Independent Special Districts and Related Indirect Overhead Costs

The Fire Department provides services to several independent fire districts in the region (Eastside, Lincoln, Tuxedo Country Club and Boggs Tract). The fire districts are billed annually for a prorated share of the Fire Department's budget. The parties are in dispute over the basis of this calculation and the City has accumulated approximately \$2.3 million in uncollected accounts receivable balances due from these districts for the four year period from July 1, 2007 through June 30, 2011. The parties have discussed this issue over the years without resolution. Recent talks have reduced the accumulated dispute from \$2.3 million to \$1 million, and the parties have conceptually agreed to a new calculation going forward.

To minimize the amount at risk for 2010-11, a budget transfer is proposed to load the City's overhead cost onto the Fire Department budget in the same fashion in which overhead is allocated to other non-General Fund programs. This will provide the true cost of the fire department operations, including support cost such as the City's administrative functions including payroll and accounts payable. City Indirect cost allocations have not traditionally been formally recorded between the administrative and program departments in the General Fund since this effort would not change the total General Fund operating costs. Allocation of these costs to the Fire Department at this time, however, will increase the billable base budget to provide full cost recovery from

August 23, 2011

**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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(Page 7)

the independent fire districts. The proposed indirect costs to be allocated to the Fire Department, as computed through the city-wide cost plan, totals \$1,608,000. Proration of this budget increment to the districts will reduce approximately \$147,000 of collection risk to the General Fund.

The following is the proposed budget action:

General Fund #010 - Fire Department	
Increase expenditure budget	\$1,608,000
General Fund #010 - Non-Department	
Decrease expenditure budget for allocated overhead	\$1,608,000

### 3) Golf Fund

City Council has received several reports on the operation of the City's two golf courses on April 13, 2010, May 19, 2010, May 25, 2011, and June 21, 2011. To address ongoing program deficits, City Council has authorized the award of a new management agreement with Kemper Golf on June 21, 2011. The 2011-12 Golf Fund budget has assumed that residual balances in the Recreation Special Revenue Fund will be used to fund both the accumulated 2010-11 Golf Fund operating shortfall and the projected 2011-12 shortfall pending implementation of the new contract. The proposed action will formally authorize use of recreation funds in 2010-11:

The following is the proposed budget action:

Recreation Special Revenue Fund #044	
Expenditure - Transfer Out	(\$498,000)
Golf Enterprise Fund #481	
Revenue - Transfer In	\$498,000

### 4) Public Facilities Administration Fund

The City administers over 20 Public Facilities Fee Districts and related zones. Public Facilities fees are collected to finance the infrastructure cost of development. An administration charge of 2.5% on all Public Facilities fees supports the supporting staff costs of administering the program. Administrative fee revenues have experienced the same sharp drop off as other development fees during this economic cycle and no longer support the prior level of supporting staff costs. While staff levels and allocations have been adjusted in the 2011-12 budget, in line with current revenue trends, a short

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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fall has accumulated for 2010-11. The proposed action acknowledges this program loss and authorizes a backfill transfer from the General Fund.

The following is the proposed budget action:

General Fund #010	
Expenditure – Non-Department Transfer Out	(\$480,000)
Public Facilities Administration Fund #999	
Revenue - Transfer In	\$480,000

5) Debt Administration

The City administers approximately 50 bond issues and lease financing agreements. Seven of these bond issues are backed by the General Fund and have been issued since 2004. However, the methodology for the allocating the costs to support the debt program has not been updated to reflect the current debt structure. A treasury and debt administration pool has been established and appropriated in the 2011-12 budget. A new cost allocation methodology is under evaluation. The proposed action acknowledges and addresses the cost of General Fund participation in the City's debt program. The proposed action establishes a transfer to the debt service fund to fund these costs. The transfer will be recorded after actual charges are calculated and allocated to the various City debt programs. Without this change, the City would be vulnerable to a challenge on its cost allocation.

The following is the proposed budget action:

General Fund #010	
Expenditure – Non-Department Transfer Out	(\$250,000)
City Debt Service Fund #201	
Revenue - Transfer In	\$250,000

6) Compensated Absences

The City uses the Compensated Absences Internal Services Fund to accumulate resources to pay vacation, sick, and other leave balances due to employees upon retirement or separation from the City. Program departments contribute a percentage of their respective payroll costs annually to the Fund. However, budgeted contributions to the fund have not kept pace with disbursements.

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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The fund has accumulated a significant cash deficit due to accelerated workforce reduction over the past three years. The fund deficit exceeded \$2 million at June 2010 and has escalated to over \$5 million at June 2011. The General Fund allocation of the projected June 2011 deficit is expected to reach \$4 million. This projection has increased by \$1 million from prior projections due to an increase in the number of retirements and of the early implementation of fire department workforce reductions which have accelerated costs from the 2011-12 fiscal year into 2010-11. As an aside, the General Fund's compensated absence liability has shed 11% during the past year. The General Fund remains exposed to a long-term liability of \$16 million at June, 2011.

For planning purposes, due to the significance of these Compensated Absence Fund deficits, budget action is proposed to amend the General Fund budget to provide for this anticipated shortfall and supplemental internal service fund contribution. The actual contribution will be recorded at the level necessary to zero the Compensated Absence Fund deficit, and may differ from this estimated level. Non-general fund programs will share in the deficit, but are not proposed for budget amendment at this time due to uncertainty of the final allocations.

The following is the proposed budget action:

General Fund #010	
Expenditure – Compensated Absence ISF charges -	
To be allocated to individual contributing departments	(\$4,000,000)
Compensated Absence Internal Service Fund #562	
Revenue – Charges for Services	\$4,000,000

#### 7) Technology Funds

This item addresses both cash surplus and cash deficits in the Technology/Equipment Internal Service Funds. Although equipment rental charges to departments are intended to cover the cost of operations, over time imbalances have been created through savings or overruns in the various programs. The proposed action identifies surplus cash balances in two of the Technology/Equipment funds (Printing and Mailing Fund #508 - \$171,956; Telephone Equipment Fund #504 - \$330,000), covers a deficit in a third (Office Equipment Fund #550 - \$171,956), and consolidates the net available balance in the primary technology fund (Technology Fund #502 - \$330,000) for use in one-time projects in the 2011-12 budget. This consolidation of available funds into the Technology Equipment Fund (502) enhances the organizational capacity to leverage and focus these funds into technology projects prioritized for best city-wide benefit. The net result of this transaction will zero the balances in the Printing and Mailing Fund

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(508). As of July 1, 2011, the Printing and Mailing Fund (508) has been consolidated with the Office Equipment Fund (505).

The following is the proposed budget action:

Printing and Mailing #508	
Transfer In	\$171,956
Office Equipment #505	
Transfer Out	(\$171,956)
Telephone Equipment #504	
Transfer Out	(\$330,000)
Technology #502	
Transfer In	\$330,000

8) Development Services Fund Inter-fund Loans

The City's Development Services Fund carries a \$4.8 million loan receivable from the General Fund established to address a legal challenge over its fee structure. The Development Service Fund in turn has working capital loan obligations back to the General Fund and to the Workers Compensation Internal Service Fund to provide cash for current operations. The loan from the Workers Compensation Fund was approved as part of the 2009-10 budget. The loan from the General Fund was recorded as of June 30, 2010 to address the Development Service Fund's cash deficit. The three loans approximately offset within the Development Services Fund. The unwinding of these loans will improve transparency on the true liquidity of each of these funds and restores the cash balance of the Development Services Fund.

The following is the proposed 2010-11 accounting action:

General Fund	
Loan repayment to Development Services Fund	(\$4,849,481)
Development Services Fund #048	
Loan repayment from General Fund	\$4,849,481
Loan repayment to General Fund	(\$2,896,672)
Loan repayment to Workers Comp Fund	(\$1,650,000)

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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## 9) Parking Fund Inter-fund Loans

The City's Parking Enterprise Fund carries inter-fund loan obligations to the General Fund (\$500,000), General Liability Internal Service Fund (\$530,000), and the Air Quality Public Facility Fee Fund (\$1,000,000). The loans from the General Fund and General Liability Funds were recorded to provide cash flow to settle legal challenges from property acquisition, including the acquisition of the Arena and its adjacent parking garage. The loan from the Public Facilities Fee Fund supplemented bond proceeds to finance construction of parking facilities. The Parking Fund has accumulated a cash balance sufficient to settle the General Fund loan at June 30, 2011. Should additional surplus cash be available, a portion of the other loans will also be evaluated for repayment. Ongoing Parking program revenues support the viability of ongoing annual amortization and repayment of these remaining loan balances.

The following is the proposed accounting action. The actual entry will include accumulated interest charges.

Parking #416	
Loan repayment to General Fund	(\$500,000)
General Fund #010	
Loan Repayment from Parking Fund #416	\$500,000

## 10) Marina and Redevelopment Loans

In 2008-09, City Council authorized a \$500,000 loan from the Redevelopment Agency's Waterfront Project Area to the Marina Fund in conjunction with its expansion project. This loan has two issues. First, the Waterfront project area is operating at a deficit and could benefit from the use of this loan to settle its own obligations to other funds, such as the Workers Compensation Fund. Second, the Marina Enterprise has not realized its revenue potential and carries sizable debt service through a State Department of Boating and Waterways loan that is separately supported through a General Fund operating contribution. Because the Marina does not have the demonstrated ability to repay this loan in the foreseeable future, the loan receivable on the Waterfront books is a collection risk. The proposed action unwinds this loan by transferring the obligation from the Marina to the Workers Compensation Fund, where it can offset a portion of another loan the Workers Compensation Fund has extended to the Waterfront Project area. The Workers Compensation fund advanced \$8 million in working capital funds to the Waterfront Project Area during 2009-10. The proposed action further backfills the Marina cash with a General Fund transfer funded by the collection of its Parking Fund loan in the same amount, discussed in Item #9 above.

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The following are the proposed accounting actions:

Marina Fund #460		
Transfer loan from Waterfront Fund to		
Workers Compensation Fund		(\$500,000)
Workers Compensation Fund #551		
Receive loan from Waterfront Fund from		
Marina Fund		\$500,000
Waterfront Fund #343		
Loan Repayment from Marina Fund		\$500,000
Loan Repayment to Workers Compensation Fund		(\$500,000)
General Fund #010		
Non-Department Expenditure – Transfer out - Marina		(\$500,000)
Marina Fund #460		
Revenue – Transfer In		\$500,000

#### Capital Improvement Program

The City's capital improvement program has been overcommitted in excess of \$20 million. This condition has evolved over time through reliance on optimistic development revenue projections and decentralized capital project management without sufficient budget monitoring processes to identify and address program deficits as the City's fast growing development revenue came to a halt. A portion of these deficits were authorized through inter-fund loans that were supportable with anticipated development revenue at the time of approval, but are no longer sustainable. Further, since four of the Public Facility Fee revenues were leveraged through a 2009 bond issue, future development revenues in these targeted fee areas are committed to pay debt service on the \$35 million of outstanding principal, and are not available to repay inter-fund loans in the foreseeable future.

Capital program commitments and identified deficits have been addressed by a cross-departmental team of Public Works, Community Development, Budget, and Accounting staff. City Council's action to merge four Street Improvement Public Facilities Fee zones on June 21, 2011 has addressed approximately \$6 million of this deficit. Another \$2 million has been addressed through replacement funding sources. \$7 million of projects have been deferred or cancelled as of June 30, 2011 and will not be carried over into the following fiscal year. Approximately \$2 million of unfunded interest charges are proposed for reallocation to other sources. Finally, about \$7 million of inter-

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fund loans in three Public Facilities Fees funds have not yet been addressed, and are further discussed below.

11) Capital Projects – Replacement Funding

The following changes are to correct a continuing problem where capital projects were approved based upon Public Facilities fee revenue projections that did not reflect the current economic downturn. For these projects, alternative replacement revenue sources have been identified. No changes are proposed to the size or scope of these projects. The only change is to update the revenue sources that pay for the project. Transfer of budget appropriations to these new revenue sources will help cure program deficits in the original source funds.

The following is the proposed budget action:

I-5 French Camp Project

Replace Citywide Street Fee revenue with Regional Transportation Fee revenue

Fund #915 – Public Facilities Fees (Citywide Street Fees)	
Increase expenditures – I-5 French Camp	\$1,418,692
Fund #917 – Public Facilities Fees (Regional Transportation)	
Decrease expenditures – I-5 French Camp	(\$1,418,692)

Street Improvement Projects, Zones 1&2

Replace Street Improvement Fee revenue with Area of Benefit revenues

Fund #304 – Capital Reimbursements (from project list below)	
Increase revenues and expenditures	\$945,742
Fund #911 – Public Facilities Fees (Street Zone 1&2)	
Decrease expenditures	(\$945,742)

Capital Reimbursement Project List

Lower Sacramento Road/Whistler Rd Traffic Signal	\$ 30,815
Hammer/West Lane Intersection	13,809
I-% Soundwalls Cal. River to 14 Mile Slough	120,999
Eight Mile Road/UPRR GS	707,791
Lorraine/hammer Lane Replace Traffic Signal	287
Morada/99 Overcross PSR	1,899
Whistler Way Extension	58,196
Davis Road Bridge Approaches	11,946
	<u>\$945,742</u>

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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## 12) Grant Programs – Negative Interest

The City benefits from significant Federal, State, and local grant funding. Dedicated accounting funds have been set up to provide separate accountability for most grant programs outside of the General Fund. Most grant programs are operated on a reimbursement basis such that the City must first incur qualifying expenditures and then seek reimbursement based upon documented actual costs. The timing difference between City disbursements and the subsequent reimbursements creates cash borrowing from the City investment pool and associated interest charges. Unfortunately, interest charges exceeding \$2 million dollars have accumulated in the grant funds over the past 5 to 10 years without an eligible funding source. The proposed action acknowledges these unfunded costs and authorizes transfers from the Gas Tax Fund for shortages in the Transportation Program "SAFETEA" capital grant fund; from housing funds for shortages in the HUD program funds, including CDBG and HOME program funds; and from the General Fund for other grant programs in the multi-program capital grant fund. Prospectively, the underlying cause of this issue continues, as the City continues to leverage tens of millions of dollars annually through these successful grant programs. However, procedures have been revised to minimize negative grant interest charges. Grant billings will be prioritized, with a particular focus on large capital expenditures, to minimize the time lag between grant disbursement and reimbursement.

The following is the proposed budget action:

a) Transportation Programs		
Gas Tax Fund #030		
Expenditure – Transfer Out		(\$987,156)
SAFETEA Capital Grant Fund #038		
Revenue – Transfer In		\$987,156
b) Multi-fund Programs		
General Fund #010		
Expenditure – Non-Department - Transfer Out		(\$825,000)
Capital Grant Fund #304		
Revenue - Transfer In		825,000
c) Housing Programs		
Façade Fund #056		
Expenditure –Transfer Out		(\$243,697)

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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HUD Funds – Transfers In	
CDBG #052	\$189,528
Special Grant & Loan Programs #053	\$17,000
CalHOME #060	\$30,431
Emergency Shelter Grant #057	\$6,738

13) Public Facilities Loans – Police, Fire, and Community Center Programs

The Police, Fire, and Community Center Public Facility Fee programs have constructed \$7 million in projects financed with loans from other Public Facility Fee Programs that are at risk for repayment in the foreseeable future. The improvement projects financed with these funds include the Teen Center, the Arena events center, the McNair Community Center, Fire Station #13, and the North Stockton police sub-station. The unified Street Improvement Public Facilities Fee is the primary source for these loans, which is owed \$5 million in principal.

Additional Public Facility Fee projects have also been financed by the City's \$35 million 2009 lease revenue bond issue. Because current and projected development fee revenues in the Police and Fire programs are committed to debt service on the 2009 Public Facilities Fee bonds, they are not available to repay these inter-fund loans in the foreseeable future. Further, the lending Public Facilities Fee programs have projects to schedule within the timelines required by State AB1600 that will require collection of these loans to finance project delivery. Even optimistic development revenue projections are unable to anticipate loan repayments within the next ten years.

Government Accounting Standards require an ongoing assessment of the realization of recorded receivables in the lending fund, and further require evidence of the ability and intent to repay inter-fund loans. These loans do not currently meet these criteria. Further, these inter-fund loans cannot simply be written off since the financed projects are not eligible expenditures of the funds from which the loans were made.

This report does not recommend corrective actions on these loan transactions at this time. However, a solution will be needed to complete the City's annual financial report. Staff will continue to compile actual year-end balances for the General and other unrestricted funds and return to City Council with a recommendation to further consolidate available balances and transfer these loans from restricted to unrestricted sources. This action will allow the restricted Public Facility Fee programs to complete the projects for which their fees were originally collected. The loans to the Police, Community Center, and Fire programs will be proposed to be held in the City's capital fund, offset by an allowance for doubtful accounts, until such time that development

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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revenues are restored and repayment can be scheduled. To complete this proposal, \$7 million in unrestricted resources will need to be identified and transferred to the Capital Fund. This may require cancellation of additional projects or transfer of funds from other priority City programs but is a necessary step to openly address and measure the net unrestricted funds available to the City.

## 14) Measure K

The City receives Measure K transportation grant allocations for both capital and maintenance operating programs. For many years both capital and operating funds were administered in a consolidated fund. Beginning in 2010-11, activities were separated into the #80 Capital Fund and the #82 Operating Fund to improve budget and reporting accountability. The proposed action completes this segregation by finalizing the split of existing resources between funds according to their original Measure K source allocations. The following budget authorization is based upon program cash flow projections. The actual recorded transfer will be based upon actual 2010-11 receipts and expenditures.

The following is the proposed budget action:

Measure K – Capital Fund #80	
Expenditure - Transfer Out	(\$3,384,164)
Measure K – Operating Fund #82	
Revenue - Transfer In	\$3,384,164

## 15) Wastewater Public Facilities Fee Loan

The 2004-05 budget authorized a \$10 million working capital loan from the Wastewater Public Facilities Fee Fund to the Wastewater Operating Fund. The loan financed repairs at the Regional Wastewater Treatment Facility following OMI/Thames assumption of operations. The Operating Fund now holds sufficient cash to repay the loan with accrued interest. This repayment is proposed at this time to restore the Public Facility Fee cash position to facilitate development of its capital spending plan. In addition to the \$10 million principal balance, accrued interest will also be updated and charged. Some interest payments have been made over the years.

The following is principal balance of the proposed budget action:

Wastewater Operating Fund #431	
Loan repayment to Public Facilities Fee Fund	(\$10,000,000)

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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Wastewater Public Facilities Fee Fund #434	
Loan repayment from Operating Fund	\$10,000,000

## 16) MUD/Jarvis Settlement

In 2009, the City entered into a legal settlement requiring the City's General Fund and General Capital Fund to repay the City's Water and Wastewater Funds for Proposition 218 violations. As of June 30, 2010, the balance due was \$20,016,000, payable in annual installments of \$1.1 million for thirty years. Consistent with Government Accounting Standards, this obligation has been reported as a loan payable in the City's fund financial statements.

Subsequent research indicates that as a judicial order, this obligation meets the State constitutional criteria for long-term debt that does not require voter approval, and is therefore not an obligation that restricts current resources. Further, the City's General Capital Projects fund has no substantive current revenue source other than annual General Fund contributions, and accordingly the substance of this loan is a General Fund obligation.

For these reasons, the proposed action transfers this inter-fund loan obligation from the General Fund and General Capital Projects Funds to the City's General Debt Service Fund #201 for amortization through annual debt service transfers similar to other long-term bonded debt obligations. This action will remove this long-term obligation from the General Fund balance sheet and free one-time resources to address the significant program deficits and supplemental appropriations described throughout this report. Prospectively, annual transfers from the General Fund to the Debt Service fund will provide the cash flow to continue the payment schedule to the Water and Wastewater Funds as required by the 2009 settlement agreement. The 2011-12 General Fund budget includes a \$1.1 million transfer for this purpose.

The following is the proposed budget action:

Debt Service Fund #201	
Loan from Water/Wastewater Funds	\$20,016,000
Expenditure – Transfer Out – General Fund #010	(\$8,417,000)
Expenditure – Transfer Out – Capital Fund #301	(\$11,599,000)
General Fund #010	
Revenue - Transfer In - Debt Service Fund #201	\$8,417,000
Loan from Water/Wastewater Funds #421/431	(\$8,417,000)

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**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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General Capital Projects Fund #301	
Revenue - Transfer In – Debt Service Fund #201	\$11,599,000
Loan from Water/Wastewater Funds #421/431	(\$11,599,000)

Present Situation

The proposed 2010-11 actions support the City Council goal of “Fiscal Sustainability – Getting Our Fiscal House in Order” and make progress on the Business Analysis Strategic Initiative developed to support this goal. These actions continue to take positive, incremental steps to improve clarity about the overall fiscal condition of the City.

Final 2010-11 tax revenues and ending fund balances for all city funds will continue to be compiled and analyzed during the next two months. Concurrently, staff will be working on implementation plans to address emerging 2011-12 budget challenges from the anticipated additional loss of property tax revenues, elimination of state vehicle license fees, and the uncertain future of Redevelopment tax increment revenue. The Fire department is also developing contingency plans to address a potential arbitration budget impact through further service reductions or negotiated compensation reductions to maintain spending within its \$40 million annual operating budget.

The proposed resolutions amend the 2010-11 budget, approve transfers, and approve loan settlements as discussed above. Separate actions are proposed for the City and the Redevelopment Agency.

FINANCIAL SUMMARY

This report proposes actions that provide a path for the General Fund to end 2010-11 with a small surplus balance. As fund results are compiled, unrestricted surpluses in all City funds will be evaluated and considered for transfer to the City’s General Capital Project Fund to backfill \$7 million of inter-fund loans from restricted sources that currently carry repayment risk. Further, evolving challenges to the City’s 2011-12 budget plan may require implementation of additional service and labor cost reductions. Staff is working on the development of these plans.

The entire City executive team recognizes the responsibility and the authority you have vested in us to take the actions necessary to maintain the City’s 2011-12 budget and to continue a path towards multi-year fiscal sustainability.

August 23, 2011

**FISCAL YEAR 2010-11 AND 2011-12 BUDGET UPDATES, AUTHORIZATION TO AMEND 2010-11 BUDGET, AND APPROVAL TO RECORD VARIOUS INTER-FUND TRANSFERS AND SETTLE INTER-FUND LOANS**

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Respectfully submitted,



SUSAN MAYER  
CHIEF FINANCIAL OFFICER

APPROVED



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LAURIE MONTES  
DEPUTY CITY MANAGER

SM:jl

Resolution No. \_\_\_\_\_

# STOCKTON CITY COUNCIL

## RESOLUTION OF THE CITY COUNCIL OF THE CITY OF STOCKTON APPROVING AMENDMENTS TO THE 2010-2011 ANNUAL BUDGET; APPROVING VARIOUS INTERFUND TRANSFERS; AND APPROVING SETTLEMENT OF INTERFUND LOANS

The City Council adopted the 2010-2011 Annual Budget on June 22, 2010; and

The City Council received updates on the 2010-2011 Budget on November 16, 2010, February 15, 2011, March 29, 2011, and May 17, 2011; and

Fiscal Sustainability is one of the City Council's 2011 goals; and

By the staff report accompanying this Resolution, the Council has been provided with additional information upon which the actions set forth in this Resolution are based; now, therefore,

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

1. The 2010-2011 Annual Budget is amended to include the adjustments, inter-fund transfers, and inter-fund loan repayments as outlined in Exhibit 1.

2. The City Manager is authorized and directed to take such actions as are appropriate to carry out the purpose and intent of this resolution.

PASSED, APPROVED, and ADOPTED August 23, 2011.

\_\_\_\_\_  
ANN JOHNSTON, Mayor  
of the City of Stockton

ATTEST:

\_\_\_\_\_  
BONNIE PAIGE  
City Clerk of the City of Stockton

City Atty  
Review           
Date August 17, 2011

## Exhibit 1

City of Stockton

Amendments to the 2010-2011 Annual Budget and Settlement of Inter-fund Loans

August 23, 2011

	<u>Amount</u>
1) <u>Labor Negotiation and related litigation costs</u>	
General Fund #010 Expenditures	
Police, Fire or other program department budget, not to exceed amount of realized budget savings	(1,900,000)
Non-Departmental - Labor Negotiation	1,900,000
2) <u>Billing for Fire Services Provided to Independent Special Districts and Related     Indirect Overhead Costs</u>	
General Fund #010 Expenditures	
Non-Departmental	(1,608,000)
Fire Department - Indirect Costs	1,608,000
3) <u>Golf Fund</u>	
Transfer From:	
Recreation Fund #044	(498,000)
Transfer To:	
Golf Fund #481	498,000
4) <u>Public Facilities Administration Fund</u>	
Transfer From:	
General Fund #010	(480,000)
Transfer To:	
Public Facilities Administration Fund #990	480,000
5) <u>Debt Administration</u>	
Transfer From:	
General Fund #010	(250,000)
Transfer To:	
City Debt Service Fund #201	250,000
6) <u>Compensated Absences</u>	
Transfer From:	
General Fund #010	(4,000,000)
Transfer To:	
Compensated Absence Fund #562	4,000,000

Exhibit 1  
 City of Stockton  
 Amendments to the 2010-2011 Annual Budget and Settlement of Inter-fund Loans  
 August 23, 2011

	<u>Amount</u>
<u>Continued</u>	
7) <u>Technology Funds</u>	
Transfer From:	
Office Equipment #505	(171,956)
Telephone Equipment #504	(330,000)
Transfer To:	
Printing and Mailing #508	171,956
Technology #502	330,000
8) <u>Development Services Fund Inter-fund Loans</u>	
Development Services Loan to General Fund	
General Fund #010 Repayment	(4,849,481)
Development Services #048	4,849,481
General Fund Loan to Development Services	
General Fund #010	2,896,672
Development Services #048 Repayment	(2,896,672)
Workers' Compensation Loan to Development Services	
Workers' Compensation #551	1,650,000
Development Services #048 Repayment	(1,650,000)
9) <u>Parking Fund Inter-fund Loans</u>	
Transfer From:	
Central Parking District Operating Fund #416	(500,000)
Transfer To:	
Central Parking District Capital Fund #417	500,000
General Fund Loan to Central Parking District	
Parking Capital Fund #417 Repayment	(500,000)
General Fund #010	500,000

Exhibit 1  
 City of Stockton  
 Amendments to the 2010-2011 Annual Budget and Settlement of Inter-fund Loans  
 August 23, 2011

	<u>Amount</u>
<u>Continued</u>	
10) <u>Marina and Redevelopment Loans</u>	
Marina Fund #460	
Transfer loan from Waterfront Fund to Workers Compensation Fund	(500,000)
Workers Compensation Fund #551	
Receive loan from Waterfront Fund from Marina Fund	500,000
Transfer From:	
General Fund #010	(500,000)
Transfer To:	
Marina Fund #460	500,000
11) <u>Capital Projects – Replacement Funding</u>	
Capital Expenditures	
Capital Reimbursements Fund #304	945,742
Public Facilities Fees Fund #911	(945,742)
Public Facilities (Citywide Street Fees) Fund #915	1,418,692
Public Facilities (Regional Transportation) Fund #917	(1,418,692)
12) <u>Grant Programs – Negative Interest</u>	
Transfer From:	
Gas Tax Fund #030	(987,156)
Transfer To:	
SAFETEA Capital Grant Fund #038	987,156
Transfer From:	
General Fund #010	(825,000)
Transfer To:	
Capital Grant Fund #304	825,000

Exhibit 1  
 City of Stockton  
 Amendments to the 2010-2011 Annual Budget and Settlement of Inter-fund Loans  
 August 23, 2011

	<u>Amount</u>
<u>Continued</u>	
12) <u>Grant Programs – Negative Interest</u>	
Transfer From:	
Façade Fund #056	(243,697)
Transfer To:	
CDBG #052	189,528
Special Grant & Loan Programs #053	17,000
CalHOME #060	30,431
Emergency Shelter Grant #057	6,738
14) <u>Measure K</u>	
Transfer From:	
Measure K – Capital Fund #80	(3,384,164)
Transfer To:	
Measure K – Operating Fund #82	3,384,164
15) <u>Wastewater Public Facilities Fee Loan</u>	
Wastewater Public Facilities Fee Fund Loan to Wastewater Operating Fund	
Wastewater Operating Fund #431 Repayment	(10,000,000)
Wastewater Public Facilities Fee Fund #434	10,000,000
16) <u>MUD/Jarvis Settlement</u>	
Debt Service Fund #201	
Loan from Water/Wastewater Funds	20,016,000
Expenditure – Transfer Out – General Fund #010	(8,417,000)
Expenditure – Transfer Out – Capital Fund #310	(11,599,000)
General Fund #010	
Revenue - Transfer In - Debt Service Fund #201	8,417,000
Loan from Water/Wastewater Funds #421/431	(8,417,000)
General Capital Projects Fund #301	
Revenue - Transfer In – Debt Service Fund #201	11,599,000
Loan from Water/Wastewater Funds #421/431	(11,599,000)

# Exhibit O

**NEW BUSINESS**

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AGENDA ITEM 15.1

October 18, 2011

TO: Mayor and City Council

FROM: Susan Mayer, Chief Financial Officer

SUBJECT: **FISCAL YEAR 2011-12 GENERAL FUND BUDGET UPDATE AND AUTHORIZATION TO AMEND THE 2011-12 BUDGET**

### RECOMMENDATION

It is recommended that the City Council adopt a resolution amending the Fiscal Year 2011-12 budget.

### Summary

This report provides a Fiscal Year 2011-12 General Fund Midyear Budget Update. The City's budget condition continues to be impacted by external factors that challenge our ability to provide current services within available revenues. An action plan is presented to mitigate a \$3 million loss in major tax revenues and to correct the pricing of the Fire Department's overtime budget. This report also summarizes a list of ongoing challenges to the General fund. The City remains committed to addressing challenges as they arise and recognizes its responsibility to continue to adjust costs as necessary to operate within available revenues.

This report and its discussion of revised budget projections support the continuation of the state of fiscal emergency as adopted by Council Resolution 11-0114 on May 17, 2011.

### DISCUSSION

#### Background

The City Council has targeted "Fiscal Sustainability – Getting Our Fiscal House in Order" as one its four goals for 2011. One of the strategic initiatives developed to support this goal was budget monitoring and mid-year reporting.

The last budget update presented to City Council on August 23, 2011 reported several significant events impacting the 2011-12 General Fund budget. The following chart is a summary of current issues and the proposed action plan that enables the City to maintain a balanced 2011-12 budget.

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**FISCAL YEAR 2011-12 GENERAL FUND BUDGET UPDATE AND AUTHORIZATION  
TO AMEND THE 2011-12 BUDGET**

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**General Fund  
Action Plan for Known Budget Impacts  
2011-12**

**Issues**

Property Tax Revenues /Decline in Assessed Valuation	(2,232,600)
State Budget/Loss of Vehicle License Fee Allocations	(1,047,400)
Fire Overtime/Re-pricing to match leave policy	(700,000)
	<u>(3,980,000)</u>

**Solutions**

<b>New and carryover grant sources</b>	
State Mitigation - Prison Hospital	347,000
Peacekeepers Grant	200,000
Police grants - Carryover from 2010-11 (COPS, JAG)	604,000
Measure W - Budget Plan B Labor Cost Reductions	742,000
	<u>1,893,000</u>
Vacancy Savings (from July 1-Sept)	816,000
Service Reductions, without layoff	196,000
Capital Project cancelations	75,000
Contingency (Draws \$2 million balance to \$1 million)	1,000,000
	<u>3,980,000</u>
Net Impact	<u><u>-</u></u>

***Issues***

*Property Taxes* – We currently anticipate a 2011-12 General Fund property tax decline of 4.7% from the prior year. The original 2011-12 property tax revenue budget had been developed with an assumption of stabilizing property values. This assumption was developed with input from the City's contract tax consultant and from direct discussion with the County Assessor as recently as late April. This new information creates a significantly unfavorable \$2.2 million loss of tax revenue from the adopted budget. In our analysis of the current tax roll, we noted that over half of the parcels in the City received Proposition 8 reductions during the year. Individual valuation adjustments averaged a decline of 12.7%. Unfortunately, this is not a one-time revenue loss, but is an ongoing reduction in our revenue base that further signals that the City's property values have not yet stabilized.

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**FISCAL YEAR 2011-12 GENERAL FUND BUDGET UPDATE AND AUTHORIZATION  
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*Vehicle License Fees* – As the State adopted its 2011-12 budget, it adopted SB 89 which eliminates the remaining allocation of Vehicle License Fees to local agencies. Made public just hours before the legislative floor votes, the bill shifts Vehicle License Fee revenues to state law enforcement grants. This State action eliminates a significant \$1,047,400 source from the City's General Fund revenue budget.

This Vehicle License Fee loss has been offset by the State with a new restricted COPS grant award of \$480,000. However, the Police Department's COPS Grant Fund budget had already included an estimate for this COPS grant to offset current Police labor costs. The City's COPS Grant Fund does have, however, surplus unallocated grant funds in the amount of \$350,000, rolled forward from 2010-11 operations, that is immediately available to offset 2011-12 labor costs to mitigate a portion of this Vehicle License Fee revenue loss.

*Sales and Use Tax* – We have received good news on sales tax for the quarter ending June 30, 2011. Initial data released by the Board of Equalization shows a 10% increase compared to the same quarter in 2010. Because much of this June quarterly increase was driven by fuel prices, this increase may not be sustainable for the full 2011-12 year. We are cautiously optimistic that this increase in our sales tax base for the quarter could result in a \$200,000 increase in the annual projection, which had assumed a 3.8% annual increase. We are waiting for detailed quarterly projections by retail segment for trend analysis before formally updating the sales tax revenue projection. However, this is an encouraging trend in an otherwise challenging economic environment.

*Fire Overtime* – \$700,000 is needed to correct the pricing of the overtime budget within the Fire Department. The Interim Fire Chief has identified an inconsistency between the department's vacation use policy, the supporting overtime budget available to backfill vacation leave, and the vacation cap provision in the newly implemented fire compensation resolution.

Departmental policy has been to limit sworn fire employee vacation leave usage during the year. This policy has created cash flow savings since additional overtime has not been required to back fill for unused vacation time. However, under the terms of the new fire compensation resolution, employees are now subject to a cap on the accumulation of their vacation leave. The department simply must allocate more vacation usage so employees can get within the negotiated caps. The department has proposed modifying its leave usage policy to provide the flexibility for employees to take their vacation time and ultimately stay within the new cap in due time. The new caps provide long-term benefit to the City by avoiding the accumulation of large cash balances that are payable to employees upon retirement or separation. This additional overtime is for backfilling people on more vacation than in the past.

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**FISCAL YEAR 2011-12 GENERAL FUND BUDGET UPDATE AND AUTHORIZATION  
TO AMEND THE 2011-12 BUDGET**

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Present Situation

The combined revenue losses and the re-pricing of fire overtime have created a \$3.98 million shortfall in the 2011-12 General Fund budget. Multiple solutions have been identified to address this shortfall, including new grant resources, unanticipated vacancy savings, service reductions, and a partial use of the General Fund budgeted contingency.

**Solutions**

*Grants* – New and carryover grant resources of \$1.9 million have been identified that will offset approximately half of the identified \$4 million shortfall, as follows:

- The City anticipates a new one-time allocation of \$347,000 from the state to mitigate impacts resulting from the construction of a medical care facility for State prisoners. The funds from the State are unrestricted and available to fund General Fund services.
- The Peacekeeper Program has received a \$200,000 Prop. 63 grant from the County. This grant can replace and reduce the budgeted General Fund support for this program.
- The Police Department has identified \$604,000 in grant funds that will carryover from the 2010-11 fiscal year, including the Federal JAG grant and the State COPS grant program. These carryover grant balances can offset 2011-12 Police Department labor costs.
- The total costs of Police and Fire employees allocated to the Measure W Sales Tax Fund will realize \$742,000 in savings due to the implementation of Budget Plan B labor cost savings. This will generate Measure W Fund capacity to absorb additional staff allocations from the General Fund while still operating within the original Measure W staffing plan.

*Vacancy Savings* – A significant number of employees have left City service over the past few months, including 100 separations at the end of June. While many vacant positions were eliminated, other vacant positions remain funded and will likely be filled through recruiting efforts. During the recruitment period, General Fund vacancies are estimated to achieve \$816,000 from budgeted levels, including \$566,000 of savings in the Police Department. While these savings are one-time and not ongoing, these temporary savings do buy the City time to build a longer-term financial plan and to phase in deeper cost reductions if and when necessary.

*Service Reductions* – The remaining requirement for budget-balancing service reductions has been minimized by the grant and vacancy saving assumptions

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**FISCAL YEAR 2011-12 GENERAL FUND BUDGET UPDATE AND AUTHORIZATION  
TO AMEND THE 2011-12 BUDGET**

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discussed above. Service reductions are targeted at \$271,000. This includes \$196,000 in reductions from the Public Works Department and \$75,000 in capital project reductions. The reduction in capital project funding will impact available funds for the Riverfront Park improvements, the Philomathean Club renovation and the Animal Shelter HVAC project. These savings can be achieved without employee layoffs. Tree crew and parks workers will shift more of their time to Landscape Maintenance Districts and Gas Tax funded community enhancement services. Other General Fund program departments have contributed to the overall General Fund solution through vacancy savings.

*Contingency* – The final proposal for re-balancing the 2011-12 General Fund is to utilize half of the budgeted \$2 million contingency. The contingency was intended to be used to mitigate state impacts and revenue losses. Use of part of this contingency will enable the City to maintain a balanced budget and minimize service impacts and employee layoffs during the development of a longer-term financial plan.

We note with caution that a significant portion of these solutions are one-time in nature while the revenue losses and fire costs are ongoing issues. This creates a new \$3.9 million operating deficit going into FY 2012-13. Permanent structural solutions will be needed to rebuild long-term financial stability.

***Ongoing Issues***

The solutions discussed above address the quantifiable and known budget impacts to the General Fund. However, the General Fund remains at risk for a number of other serious but un-quantified and unresolved issues.

***2011-12 Beginning Balance*** – As discussed in the August 23, 2011 budget report to City Council, staff continues the year-end close process and general ledger analysis in preparation for publication of the City's annual financial statements. We have identified concerns about the recorded value of accounts receivable in a number of City funds and programs. Research and analysis is ongoing. Further, as discussed with City Council at the time of the budget adoption, and again at the August 23, 2011 budget update, the city carries a list of inter-fund loans that are at risk of repayment, and this risk exceeds \$7 million. We anticipate returning to City Council with recommendations for any additional inter-fund transfers that may become necessary to cover the write-down of these receivables and inter-fund loans.

***Statewide Elimination of Redevelopment Agencies*** – The State has passed legislation that limits future Redevelopment Agency activities. A study session held on August 16, 2011 provided the City Council with details about the impact of this State action and options available to the Agency and City as a potential successor organization. This State legislation has been challenged in a lawsuit filed by the California Redevelopment Association that is unlikely to be resolved for some time.

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**FISCAL YEAR 2011-12 GENERAL FUND BUDGET UPDATE AND AUTHORIZATION  
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The City cannot at this point predict what impact the dissolution of its Redevelopment Agency would have on the General Fund of the City. Even without dissolution, the City's Redevelopment Agency has a cash flow risk since current property tax increment revenues are insufficient to cover the annual costs of the redevelopment program as currently configured. Since the budget adoption, we have new information on Redevelopment property tax revenues that show weaker revenues than budgeted.

The Redevelopment Agency cash flow has direct impact on the General Fund. First, the Redevelopment Agency reimburses the General Fund for an allocation of administrative costs. It may no longer have the cash flow to support this reimbursement. We are evaluating the Agency's administration budget to consider its flexibility for further cost reductions. Second, the Redevelopment Agency has short-term and long-term loans from the City that are at increased risk of repayment under the provisions of the new State Redevelopment legislation. We are evaluating each of these loans in order to minimize risk to the General Fund. Finally, the General fund backs two of the three bond issues currently supported by Redevelopment tax increment revenues. Should the Agency be unable to make debt service payments the General Fund would be considered as a source for repayment.

The ultimate impact to the City's General Fund could range from \$2 million to \$6 million through June of 2012. The City is closely watching the State's legal challenge and continues to evaluate the necessary program and budget changes that may become necessary with or without dissolution of the Agency.

**County Teeter Program** – In response to high delinquency rates on district assessments, the County has proposed a change to its "Teeter" method of tax distribution. Under the current plan, the City receives 100% of all taxes and assessments levied, including substantially all Code Enforcement liens. The County covers the delinquent taxes in exchange for penalties and interest earned in the period in which the delinquent taxes are collected.

- Proposed changes to the Teeter Plan will have particular impact on the City's General Fund Code Enforcement revenues. The City levied approximately \$2.4 million in code enforcement fees, fines, abatement charges, interest, and penalties on the County tax roll for 2011-12. Changes to the County's Teeter Plan began in 2009 when the County imposed restrictions on lien payments by comparing the lien amount on each property to the assessed land value of the property. If the amount owed exceeded the assessed land value, the County reduced the Teeter payment down to or slightly below the assessed value. The Neighborhood Services Section of the Police Department accounted for this restriction in its 2011-12 revenue estimate.

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The County recently notified the City that it has proposed removing all direct assessments from the Teeter Plan in fiscal year 2012-13. The Teeter Plan changes do not mean that this revenue will be lost, only that the County will not pay the City up front for all delinquent fees and fines. On Tuesday, September 23, 2011, the County Board of Supervisors returned this agenda to staff, requesting additional analysis of alternatives.

The risk to the City is for 2012-13. At that time, the City might need to absorb the cash flow, carrying cost and risk of unpaid property assessments. This may add \$2 million to our operating deficit in FY 2012-13. We will continue to monitor County action on this proposal.

***Labor Contracts and Fire Arbitration Ruling*** – Modified labor agreements with cost reductions have been ratified with all groups for 2011-12 except the Stockton Police Officers' Association (SPOA) and Stockton City Employee's Association (SCEA). On June 21, 2011, the City implemented non-voluntary salary and benefit reductions for SPOA and SCEA employees under its May 17, 2011 emergency declaration. On August 9, 2011, Council approved implementation of the City's Last, Best and Final offer with its fire employees, effective July 1, 2011.

On July 22, 2011, the arbitrator in the dispute between the City and the Stockton Professional Firefighters Local 456 ruled with a split decision about employee compensation dating back to the 2010-11 Fiscal Year. The total amount of one-time back pay that the City may have owed as a remedy in this dispute was estimated at a \$4 million impact to the General Fund. The City and its Fire employees continued to negotiate the settlement of this arbitration ruling and reached a tentative agreement that settles this dispute and establishes contract terms through June 2012. The Fire unit has ratified the agreement. City Council is scheduled to consider its approval of the agreement at its October 18, 2011 meeting.

***Recap of Ongoing Issues and a Look Ahead to 2012-13*** – The ongoing issues discussed above create challenges for the General Fund as it initiates its budget development process for 2012-13. The City has identified and used \$3.98 in short-term solutions to address current 2011-12 shortfalls. Further, we have discussed accounts receivable valuation risk, inter-fund loan repayment risk in excess of \$7 million, and Redevelopment Agency risk impacts ranging from \$2 - \$6 million through June 2012. Proposed changes to the County Teeter tax distribution policy add \$2 million in Code Enforcement revenue risk beginning in 2012-13. Finally, the City has implemented non-voluntary salary and benefit reductions to its two largest employee groups, SPOA and SCEA, that will need resolution before the City can regain financial sustainability. We have initiated work on an updated long-term financial baseline projection that incorporates these risks to inform our approach for the 2012-13 fiscal year budget.

October 18, 2011

**FISCAL YEAR 2011-12 GENERAL FUND BUDGET UPDATE AND AUTHORIZATION  
TO AMEND THE 2011-12 BUDGET**

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**FINANCIAL SUMMARY**

A General Fund action plan has been identified to offset \$3.98 million in 2011-12 losses that have materialized since the original 2011-12 budget adoption on June 21, 2011. The proposed plan and budget amendment addresses known and quantifiable impacts to the budget. As discussed above, a series of additional and significant contingent risks to the General Fund remain outstanding.

The financial information provided in this report supports the continuance of the state of emergency adopted by City Council on May 17, 2011. The measures implemented under this emergency are necessary to generate the cost savings needed to maintain a balanced budget and maintain solvency of the General Fund during fiscal year 2011-12. The City continues to closely monitor its 2011-12 budget and will report to you as conditions change.

Respectfully submitted,

SUSAN MAYER  
CHIEF FINANCIAL OFFICER

APPROVED



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LAURIE MONTES  
DEPUTY CITY MANAGER

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Resolution No. \_\_\_\_\_

# STOCKTON CITY COUNCIL

## RESOLUTION APPROVING AMENDMENTS TO THE 2011-2012 ANNUAL BUDGET

The City Council adopted the 2011-2012 Annual Budget on June 21, 2011; and

The City Council received an update on the 2011-2012 Budget on August 23, 2011; and

Fiscal Sustainability is one of the City Council's 2011 goals; and

By the staff report accompanying this Resolution, the Council has been provided with additional information upon which the actions set forth in this Resolution are based; now, therefore,

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

1. The 2011-2012 Annual Budget is amended as shown in Exhibit 1.
2. The City Manager is authorized and directed to take such actions as are appropriate to carry out the purpose and intent of this resolution.

PASSED, APPROVED, and ADOPTED \_\_\_\_\_ October 18, 2011 .

\_\_\_\_\_  
ANN JOHNSTON, Mayor  
of the City of Stockton

ATTEST:

\_\_\_\_\_  
BONNIE PAIGE  
City Clerk of the City of Stockton

City Atty  
Review   *BP*    
Date   October 6, 2011

Exhibit 1

**General Fund  
2011-12 September Midyear Update**

	Adopted Budget 6/21/2011 A	Budget Increase/ (Decrease) B	Amended Budget (A + B)
<b>Revenues</b>			
Property Tax Revenues /Decline in Assessed Valuation	46,845,775	(2,232,600)	44,613,175
State Budget/Loss of Vehicle License Fee Allocations	1,047,400	(1,047,400)	-
State Mitigation - Prison Hospital	-	347,000	347,000
Program sources	113,868,138		113,868,138
	<u>161,761,313</u>	<u>(2,933,000)</u>	<u>158,828,313</u>
<b>Expenditures</b>			
<u>Programs</u>			
Police - Grants and Vacancies	84,862,036	(1,690,000)	83,172,036
Fire	39,812,835		40,290,835
Fire Overtime/Re-pricing to match leave policy		700,000	
Measure W - Budget Plan B Labor Cost Reductions		(222,000)	
Public Works - Service Reductions	7,080,990	(196,000)	6,884,990
Economic Development	485,199		485,199
Peacekeeper Program - Grant	328,354	(200,000)	128,354
Arts	36,737		36,737
	<u>132,606,151</u>	<u>(1,608,000)</u>	<u>130,998,151</u>
<u>Program Support/Other Funds</u>			
Library - Vacancy Savings	4,027,759	(50,000)	3,977,759
Recreation - Vacancy Savings	2,807,263	(50,000)	2,757,263
Entertainment Venues	2,441,299		2,441,299
Redevelopment	1,000,000		1,000,000
Marina	732,000		732,000
Capital Improvement - Project Reductions	575,000	(75,000)	500,000
Grant Match (Federal COPS; CHRP)	300,000		300,000
Development Services	150,000		150,000
	<u>12,033,321</u>	<u>(175,000)</u>	<u>11,858,321</u>
<u>Administration</u>			
City Council	521,797		521,797
City Manager	735,926		735,926
City Attorney	913,115		913,115
City Clerk	760,597		760,597
City Auditor	405,801		405,801
Admin Services	3,201,627		3,201,627
Human Resources	1,272,332		1,272,332
Tax Collection and Election	2,310,000		2,310,000
Other Admin / PIO	1,363,178		1,363,178
Vacancy savings	-	(150,000)	(150,000)
Labor Litigation	1,500,000		1,500,000
	<u>12,984,373</u>	<u>(150,000)</u>	<u>12,834,373</u>
<u>Debt Service</u>			
	<u>2,137,468</u>		<u>2,137,468</u>
<u>Contingency</u>			
	<u>2,000,000</u>	<u>(1,000,000)</u>	<u>1,000,000</u>
<u>Subtotal, Expenditures</u>			
	<u>161,761,313</u>	<u>(2,933,000)</u>	<u>158,828,313</u>
<u>Net Annual Activity</u>			
	<u>-</u>	<u>-</u>	<u>-</u>