70

MARC A. LEVINSON (STATE BAR NO. 57613)
malevinson@orrick.com
NORMAN C. HILE (STATE BAR NO. 57299)
nhile@orrick.com
PATRICK B. BOCASH (STATE BAR NO. 262763)
pbocash@orrick.com
ORRICK, HERRINGTON & SUTCLIFFE LLP
400 Capitol Mall, Suite 3000
Sacramento, California 95814-4497
Telephone: +1-916-447-9200
Facsimile: +1-916-329-4900

Attorneys for Debtor
City of Stockton

UNITED STATES BANKRUPTCY COURT

EASTERN DISTRICT OF CALIFORNIA

SACRAMENTO DIVISION

In re: CITY OF STOCKTON, CALIFORNIA, Debtor.	Case No. 2012-32118 D.C. No. OHS-15 Chapter 9
WELLS FARGO BANK, NATIONAL ASSOCIATION, FRANKLIN HIGH YIELD TAX-FREE INCOME FUND, AND FRANKLIN CALIFORNIA HIGH YIELD MUNICIPAL FUND, Plaintiffs, v. CITY OF STOCKTON, CALIFORNIA, Defendant.	**EXHIBIT D-2 TO THE DIRECT TESTIMONY DECLARATION OF KENNETH DIEKER IN SUPPORT OF CONFIRMATION OF FIRST AMENDED PLAN FOR THE ADJUSTMENT OF DEBTS OF CITY OF STOCKTON, CALIFORNIA (NOVEMBER 15, 2013)**[1] Adv. No. 2013-02315 Date: May 12, 2014 Time: 9:30 a.m. Dept: Courtroom 35 Judge: Hon. Christopher M. Klein

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

Exhibit D-2

counties of the State, over 80% of the cities, as well as, numerous school districts, special districts, housing authorities and other joint powers authorities. CSACEIA is the only joint powers authority in the State to receive the Government Finance Officers Association's Certificate of Excellence in Financial Reporting since June 30, 1994. Financial statements may be obtained from 3017 Gold Canal Drive, Suite 300, Rancho Cordova, California 95670.

Property Protection. The City also participates in the All Risks Property Protection Program purchased through CJPRMA, which is primarily underwritten by a casualty insurance company. This program provides coverage in the amount of $300 million per occurrence, subject to a $25,000 deductible, premiums, which are negotiated each year, are based on property values and are not subject to retroactive adjustments.

Post Employment Benefits

In addition to providing pension benefits through PERS, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and various employee bargaining units. All City management and public safety employees who receive a PERS retirement allowance upon separation are eligible for coverage under the Retiree Medical Plan at age 50. Some employees retired for disability may qualify at a younger age. Other miscellaneous employees receive a PERS retirement allowance with 15 or more years of service at age 50 or 55. Full medical benefits are continued until age 65 or a maximum of 15 years whichever occurs first. Such coverage includes the retiree and one dependent. At age 65, eligible retirees are covered under a Medicare Supplement Plan, which pays secondary to Medicare. This is a lifetime benefit provided to the retired employee and his or her eligible spouse.

The contributions by the City to finance these benefits are made on a pay-as-you-go basis. Substantially all of the employees of the City may become eligible for these benefits. Table 21 summarizes contributions made by the City for participating retirees.

Table 21
City of Stockton
Contributions to Post Employment Health Benefits
Fiscal Years 2003-04 through 2007-08

Fiscal Year	No. of Retirees	Contribution Amount ($ in 000's)
2003-04	525	$7,303
2004-05	656	8,179
2005-06	694	7,162
2006-07	730	7,855
2007-08	753	9,193

Sources: Comprehensive Annual Financial Reports for the Fiscal Years Ended June 30, 2004 through 2008.

In June 2004, the Governmental Accounting Standards Board ("GASB") issued Statement No. 45 ("GASB 45"), which addresses how state and local governments should account for and report their costs and obligations related to post-employment health care and other non-pension benefits ("OPEB"). GASB 45 generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. The provisions of GASB 45 may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the

beginning of the initial year of implementation. However, the unfunded actuarial liability is required to be amortized over future periods on the income statement. GASB 45 also established disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and for certain employers, the extent to which the plan has been funded over time. In addition, if the employer does not have dedicated assets or funding arrangements to pay for the benefits, GASB 45 requires that the OPEB liability be recognized on an accounting basis. Currently, the City does not have any dedicated assets or funding arrangements for payment of OPEB liabilities. These disclosure requirements will be effective for the City's Fiscal Year ending June 30, 2008.

The implementation of GASB 45 has resulted in a substantial increase in the annual expense recognized by the City for post-retirement health care benefits. The City retained the services of Bartel Associates LLC an independent actuary (the "Actuary") to prepare an actuarial valuation of the annual OPEB costs as of June 30, 2007 for all eligible City participants in PERS under the current contribution schedule. The total liability was estimated to be $388 million as of June 30, 2007. In Fiscal Year 2007-08, the City reported $33 million in OPEB expense, an increase of $25 million compared to Fiscal Year 2006-07.

The Actuary calculated the normal cost and the unfunded actuarial liability at assumed discount rates equal to 4.5% and 7.5% per annum, compounded annually. The results contained in the report of the Actuary, using 20-year and 30-year amortization periods, are set forth below. GASB 45 also requires the calculation of an Annual Required Contribution (the "ARC") which consists of: (i) the normal cost, for the post-retirement benefits; (ii) amortization of costs attributed to past service; and (iii) an adjusting element to reflect difference between funding and expensing in previous years. However, there is no requirement under GASB 45 that the ARC actually be funded.

Preliminary Discount Rate and Amortization Period Sensitivity
($000's Omitted)

	Assumed Discount Rate			
	4.5%		7.0%	
Amortization Period:	20 Years	30 Years	20 Years	30 Years
Present Value of all Projected Benefits (PVPB)	$592,154	$592,154	$381,958	$381,958
Payroll	$98,464	$98,464	$98,464	$98,464
Funded Status				
AAL	$388,303	$388,303	$284,115	$284,115
Assets	$0	$0	$0	$0
UAAL	$388,303	$388,303	$284,115	$284,115
UAAL as % of Payroll	395%	395%	289%	289%
Fiscal Year 2007-08 ARC				
Normal Cost	$17,784	$17,784	$10,573	$10,573
UAAL Amortization	16,017	22,691	20,888	16,215
ARC	$40,475	$33,801	$31,461	$26,788
ARC as % of Payroll	41.1%	34.4%	32.0%	27.2%

Source: Bartel Associates LLC.

For fiscal years beginning after December 15, 2006, GASB 45 requires that post-retirement medical plan liabilities be recognized on an accounting basis, if there are no dedicated assets or funding arrangements. This City does not have any dedicated assets or funding arrangements.

Table 22 summarizes the funded status for the OPEB liability as of June 30, 2008 based upon the most recent actuarial valuation dated June 30, 2007.

Table 22
City of Stockton
Schedule of Defined OPEB Plan Funded Status

Valuation Date (June 30)	Normal Accrued Liability (a)	Actuarial Value of Assets (b)	Unfunded Liability (a-b)	Funded Status (b/a)	Annual Covered Payroll (c)	Unfunded (Overfunded) Liability as % of Payroll (a-b/c)
2007	$388,303	$0	$388,303	0.0%	$98,464	395%

Source: Bartel Associates LLC.

Long-Term General Fund Obligations

The City has never defaulted on the payment of principal of or interest on any of its indebtedness. Table 22 summarizes the general fund obligations of the City.

No General Obligation Bonds. The City does not have any authorized but unissued general fund obligation debt outstanding.

Pension Obligation Bonds. In 2007, the City issued taxable pension obligation bonds to refund a portion of the City's unfunded actuarial liability with respect to retirement benefits accruing to City members of the California Public Employees' Retirement System.

Lease Obligations. The City has made use of various lease arrangements with private and public financing entities, nonprofit corporations and authorities for the use and acquisition of capital assets. These capital lease obligations had terms ranging from 25 to 32 years. The longest capital lease terminates in 2048. For a summary of the City's long-term debt as of June 30, 2009, see APPENDIX B–"CITY OF STOCKTON COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008–Notes to Financial Statements–Note 6–Long-Term Debt."

(Remainder of this Page Intentionally Left Blank)

Certain of these lease obligations of the City reflect annual payments made for debt service on lease revenue bonds and certificates of participation or for which the General Fund is obligated as a secondary or tertiary source to make payments for debt service issued to finance capital projects.

Table 23
City of Stockton
Long-Term General Fund Obligations
(As of June 30, 2009)

Issuer	Issue	Original Principal Amount	Outstanding Principal Amount	Maturity Date
City of Stockton[1]	Certificates of Participation (Redevelopment Housing Projects Series 2003A)	$1,160,000	$1,160,000	September 1, 2033
City of Stockton[1]	Certificates of Participation (Redevelopment Housing Projects Series 2003B)	12,140,000	12,140,000	September 1, 2033
City of Stockton	2007 Taxable Pension Obligation Bonds Series A	96,985,000	96,715,000	September 1, 2037
City of Stockton	2007 Taxable Pension Obligation Bonds Series B	28,325,000	28,325,000	September 1, 2037
Stockton Public Financing Authority[2]	2006 Lease Revenue Refunding Bonds Series A	13,965,000	13,195,000	August 1, 2031
Stockton Public Financing Authority	Variable Rate Demand Lease Revenue Bonds 2007 Series A (Building Acquisition Financing Project)	36,500,000	36,500,000	September 1, 2048
Stockton Public Financing Authority	Taxable Variable Rate Demand Lease Revenue Bonds 2007 Series B (Building Acquisition Financing Project)	4,270,000	4,270,000	September 1, 2027
Stockton Public Financing Authority	2004 Lease Revenue Bonds (Parking and Capital Projects)	32,785,000	32,415,000	September 1, 2034
Redevelopment Agency of the City of Stockton[3]	Revenue Bonds, Series 2004 (Stockton Events Center-Arena Project)	47,000,000	46,600,000	September 1, 2036

(1) The primary source for repayment is the 20% Redevelopment Housing-Set Aside.
(2) The primary sources for repayment are as follows: approximately 85% is derived from parking revenues generated within and taxes assessed upon property located in the Downtown Stockton Central Parking District and approximately 15% from a police public facility fee levied upon new development within the City.
(3) The primary source for repayment is tax increment revenues from the West End Redevelopment Project Area.

Direct and Overlapping Debt

Table 24 sets forth the Statement of Direct and Overlapping Debt for the City of Stockton as of August 1, 2009.

Table 24
City of Stockton
Statement of Direct and Overlapping Debt

2008-09 Assessed Valuation:	$21,444,225,289
Redevelopment Incremental Valuation:	2,540,938,745
Adjusted Assessed Valuation:	$18,903,286,544

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 8/1/09	
San Joaquin Delta Community College District	29.917%	$ 45,870,302	
Stockton Unified School District	80.835	218,436,379	
Lodi Unified School District	36.192	37,149,278	
Lodi Unified School District School Facilities Improvement District No. 1	84.857	38,435,978	
Lincoln Unified School District	87.284	41,648,797	
Lincoln Unified School District Community Facilities District No. 1	81.352	27,245,852	
Manteca Unified School District	19.676	12,220,174	
Manteca Unified School District Community Facilities District No. 1989-1	100.	35,716,013	
Tracy Joint Unified School District and School Facilities Improvement District No. 3	0.005	3,497	
City of Stockton Community Facilities District No. 1	100.	23,650,000	
City of Stockton Community Facilities District No. 90-1	100.	4,455,000	
City of Stockton Community Facilities District No. 90-2	100.	18,150,000	
City of Stockton Community Facilities District No. 90-4	100.	9,170,000	
City of Stockton Community Facilities District No. 96-1	100.	2,250,000	
City of Stockton Community Facilities District No. 99-02	100.	19,065,000	
City of Stockton Community Facilities District No. 2001-1 (Spanos Park West)	100.	20,255,000	
City of Stockton Community Facilities District No. 2003-1	100.	3,015,000	
City of Stockton Community Facilities District No. 2006-1	100.	3,955,000	
City of Stockton Community Facilities District No. 2006-3	100.	6,100,000	
City of Stockton 1915 Act Bonds	100.	59,835,000	
Reclamation District No. 2042 Community Facilities District No. 2001-1	18.211	1,302,997	
San Joaquin Area Flood Control Assessment District	81.467	7,568,284	
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$635,497,551	
DIRECT AND OVERLAPPING GENERAL FUND DEBT:			
San Joaquin County Certificates of Participation	33.165%	$ 65,378,165	
Lincoln Unified School District Certificates of Participation	87.284	2,740,718	
Lodi Unified School District Certificates of Participation	36.192	17,259,965	
Stockton Unified School District Certificates of Participation	80.835	34,546,924	
City of Stockton General Fund Obligations	**100.**	**145,920,000**	(1)
City of Stockton Pension Obligations	**100.**	**125,040,000**	
South San Joaquin Irrigation District Certificates of Participation	1.047	39,315	
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$390,925,087	
Less: Stockton Unified School District QZABs supported from investment fund payments		5,363,402	
South San Joaquin Irrigation District (100% self-supporting)		39,315	
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$385,522,370	
GROSS COMBINED TOTAL DEBT		$1,026,422,638	(2)
NET COMBINED TOTAL DEBT		$1,021,019,921	

(1) Excludes issue to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2008-09 Assessed Valuation:
Total Overlapping Tax and Assessment Debt 2.96%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($270,960,000) 1.43%
Gross Combined Total Debt 5.43%
Net Combined Total Debt 5.40%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/09: $0

Source: California Municipal Statistics, Inc.

CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS

Article XIII A of the California Constitution

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

The voters of the State subsequently approved various measures which further amended Article XIII A. One such amendment generally provides that the purchase or transfer of (i) real property between spouses or (ii) the principal residence and the first $1,000,000 of the Full Cash Value of other real property between parents and children, do not constitute a "purchase" or "change of ownership" triggering reappraisal under Article XIII A. Other amendments permitted the State Legislature to allow persons over the age of 55 who meet certain criteria or "severely disabled homeowners" who sell their residence and buy or build another of equal or lesser value within two years in the same county, to transfer the old residence's assessed value to the new residence. Other amendments permit the State Legislature to allow persons who are either 55 years of age or older, or who are "severely disabled," to transfer the old residence's assessed value to their new residence located in either the same or a different county and acquired or newly constructed within two years of the sale of their old residence.

In the November 1990 election, the voters approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" certain additions and improvements, including seismic retrofitting improvements and improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

Article XIII A has also been amended to provide that there would be no increase in the Full Cash Value base in the event of reconstruction of the property damaged or destroyed in a disaster.

Section 51 of the Revenue and Taxation Code permits county assessors who have reduced the assessed valuation of a property as a result of natural disasters, economic downturns or other factors, to subsequently "recapture" such value (up to the pre-decline value of the property) at an annual rate higher than 2%, depending on the assessor's measure of the restoration of value of the damaged property.

Section 4 of Article XIII A also provides that cities, counties and special districts cannot, without a two-thirds vote of the qualified electors, impose special taxes, which has been interpreted to include special fees in excess of the cost of providing the services or facility for which the fee is charged, or fees levied for general revenue purposes.

Both the California State Supreme Court and the United States Supreme Court have upheld the validity of Article XIII A.

Article XIII B of the California Constitution

On November 6, 1979, California voters approved Proposition 4, the Gann Initiative, which added Article XIII B to the California Constitution. In June 1990, Article XIII B was amended by the voters through their approval of Proposition 111. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is fiscal year 1978-79. Increases in appropriations by a governmental entity are also permitted (1) if financial responsibility for providing services is transferred to the governmental entity, or (2) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (1) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (2) the investment of tax revenues and (3) certain State subventions received by local governments. As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the City over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

As amended in June 1990, the appropriations limit for the City in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the City's option, either (1) the percentage change in California per capita personal income, or (2) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

The City's appropriations limit for Fiscal Year 2008-09 was $238,181,000, and the amount shown in the adopted budget as the appropriations subject to limitation was $159,281,000. The City's appropriations limit for Fiscal Year 2009-10 is $241,240,000, and the amount shown in the adopted budget as the appropriations subject to limitation is $128,864,000.

Proposition 218

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the "Right to Vote on Taxes Act." Proposition 218 added Articles XIII C and XIII D to the California Constitution, which contain a number of provisions affecting the ability of cities and counties to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms "local tax," "assessment," "fee" or "charge." On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIII C applied to rates and fees charged for domestic water use. In that decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the City does not believe that Article XIII C grants to the voters within the City the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the City. No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the fees and charges for the Wastewater System, which are the source of Net Revenues pledged to make the Installment Payments.

The interpretation and application of Proposition 218 will likely be subject to further judicial determinations, and it is not possible at this time to predict with certainty the outcome of such determinations.

Article XIII D. Article XIII D established procedural requirements for the imposition of assessments, defined to mean any levy or charge upon real property for a special benefit conferred upon real property, including standby charges. The procedural requirements include the conducting of a public hearing and an election, by mailed ballot, with notice to the record owner of each parcel subject to the assessment. If a majority of the ballots returned oppose the assessment, it may not be imposed.

Article XIII D conditions the imposition or increase of any "fee" or "charge" upon there being no written majority protest after a required public hearing and, for fees and charges other than for sewer, water or refuse collection services, voter approval. Article XIII D defines "fee" or "charge" to mean levies (other than *ad valorem* or special taxes or assessments) imposed by a local government upon a parcel or upon a person as an incident of the ownership or tenancy of real property, including a user fee or charge for a "property-related service." One of the requirements of Article XIII D is that before a property related fee or charge may be imposed or increased, a public hearing upon the proposed fee or charge must be held and mailed notice sent to the record owner of each identified parcel of land upon which the fee or charge is proposed for imposition. In the public hearing, if written protests of the proposed fee or charge are presented by a majority of the owners of affected identified parcel(s), an agency may not impose the fee or charge.

In *Howard Jarvis Taxpayers Association v. City of Los Angeles*, the Court of Appeal held that fees for water that are based upon metered amounts used are charges for a commodity and not related to property ownership and, consequently, Article XIII D does not apply to such fees. However, in a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community*

Services District, 32 Cal. 4th 409, upheld a Court of Appeals decision that water connection fees were not property related fees or charges subject to Article XIII D, while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court's dicta in *Richmond et al. v. Shasta Community Services District.* On March 23, 2005, the California Fifth District Court of Appeal published *Howard Jarvis Taxpayers Association v. City of Fresno,* 127 Cal.App.4th 914 (5th Dist. 2005), holding that an "in lieu" fee which is payable to the general fund of the City of Fresno from its water utility and which is included in the water rate structure of the city was invalid. In reaching its decision, the court concluded that the city's water rates were "property related" fees, governed by the limitations of Article XIII D. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006, the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil.* In dicta, the Supreme Court repeated its previous dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing water service through an existing connection were property related fees and charges under Article XIII D.

In addition to the procedural requirements of Article XIII D, under Article XIII D all property related fees and charges, including those which were in existence prior to the passage of Proposition 218 in November 1996, must meet the following substantive standards: (i) the revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service; (ii) the revenues derived from the fee or charge must not be used for any purpose other than that for which the fee or charge was imposed; (iii) the amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel; (iv) no fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question, fees or charges based on potential or future use of a service are not permitted, and standby charges, whether characterized as charges or assessments, must be classified as assessments and cannot be imposed without compliance with Section 4 of Article XIII D (relating to assessments); and (v) no fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners.

The City believes that its rates comply with the foregoing standards.

Article XIII D provides that nothing in Proposition 218 shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies. The ability of the City to comply with its covenants under the Indenture and to generate Net Revenues sufficient to make payments on the 2009 Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the 2009Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Indenture, the rights and obligations under the 2009 Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipal utility districts in the State of California.

Before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The City must then hold a hearing upon the proposed imposition or increase, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the City may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, or fees for electrical and gas service, which are not treated as "property related" for purposes of Article XIII D, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area.

In addition, Proposition 218 added several requirements making it generally more difficult for counties and other local agencies to levy and maintain assessments for municipal services and programs.

Finally, Proposition 218 requires that all new local taxes be submitted to the electorate before they become effective. Taxes for general government purposes of the City require a majority vote and taxes for specific purposes only require a two-thirds vote. The voter approval requirements reduce the flexibility of the City Council to deal with fiscal problems by raising revenue and no assurance can be given that the City will be able to raise taxes in the future to meet increased expenditure requirements.

Emergency Communications System Access Fee Litigation. On June 8, 2004 the City Council approved Ordinance No. 011-04, entitled the "Emergency Communications System Access Fee Ordinance" (the "Ordinance"). The Ordinance established a fee, entitled the Emergency Communications System Access Fee (the "911 Fee"), on every person who maintains access to the City's 911 communication system by subscribing to local telephone service. The Ordinance further required that telephone service suppliers, such as Cingular Wireless, Pacific Bell and AT&T Wireless (the "Telephone Companies") collect and remit the 911 Fee to the City.

Three cases, *Andal, et al. v. City of Stockton*, San Joaquin Superior Court case No. CV024300 (filed July 6, 2004), *Robinson, et al. v. City of Stockton*, San Joaquin Superior Court case No. CV024426 (filed July 27, 2004) and *Solari, et al. v. City of Stockton*, San Joaquin Superior Court case No. CV026908 (filed July 11, 2005) (collectively, the "Consolidated Cases") were filed alleging that the 911 Fee violated the provisions of Proposition 218 and subsequently consolidated by the court.

Beginning in July of 2004 the Consolidated Cases were filed on behalf of the Telephone Companies and individual taxpayer plaintiffs (collectively the "Plaintiffs"). The Consolidated Cases have been the subject of extensive litigation culminating in a judgment in favor of the Plaintiffs entered on June 21, 2007 (the "Judgment"). The Judgment found specifically that the 911 Fee was an illegal special tax in violation of Proposition 218.

On August 16, 2007 the City filed its Notice of Appeal in the Third District Court of Appeal. The City continued to collect the 911 Fee while the appeal was pending.

A final negotiated settlement agreement was accepted by all parties in December 2008. The settlement resulted in an immediate reduction in revenue from the 911 Fee in the amount of approximately $2.7 million due to the loss of this revenue source over the third and fourth quarters of Fiscal Year 2008-09. The annualized revenue loss beginning in Fiscal Year 2009-10 is equal to approximately $5.4 million.

The revenue expected to be lost as a result of this litigation will place an additional burden on the General Fund. The full year annualized amount of the 911 Fee collected by the City represents approximately 3% of General Fund revenues. The Fiscal Year 2008-09 Adopted Revised Budget includes funding public safety budgets (in the amount of approximately $2.7 million) from the General

Fund instead of from the special revenue fund into which the 911 Fees had been deposited. Emergency communication costs have been budgeted in the Fiscal Year 2009-10 General Fund budget without the benefit of the previously collected 911 Fee. Fire and Police Department (General Fund) budget targets included these additional costs. As a result, the City believes that the funding concerns associated with this issue have been addressed and will not have a material adverse effect on the City's ability to make timely payments with respect to the 2009 Bonds.

Howard Jarvis Taxpayers Assoc., et al. v. City of Stockton. Commencing in 1978, the City levied a "fee in lieu of property tax" on properties served by the City's wastewater and water utilities. These fees originally were deposited into the General Fund and supported a variety of City functions, including police, fire, ambulance, and library service. In Fiscal Year 2002-03, the City doubled the fee rate and revenue from the increase was directed to a special "Infrastructure Reinvestment Fund." Also in Fiscal Year 2002-03, the City imposed a "fee in lieu of property tax" on stormwater utility users. As with the water and wastewater fees, the City designated one-half of this fee for deposit into the General Fund and one-half for deposit in the Infrastructure Reinvestment Fund.

On October 10, 2006 a lawsuit (*Howard Jarvis Taxpayers Assoc., et al. v. City of Stockton (*San Joaquin Superior Court No. CV-030686-CU-JR-STK) was filed contending that the transfers violated Proposition 218 on the grounds that the transfers caused utility fees to be used for purposes other than providing the utility services for which the fees were charged. On March 24, 2009 a settlement of this lawsuit was approved by the Stockton City Council requiring the City's General Fund to repay $19.49 million over a thirty year period, with the annual repayment of approximately $1.1 million to begin in Fiscal Year 2010-11 and end Fiscal Year 2039-40.

The agreement has no impact on the City's General Fund available fund balance or cash estimates for either Fiscal Year 2008-09 and Fiscal Year 2009-10. The repayment schedule beginning in Fiscal Year 2010-11 has been incorporated into the long-term financial outlook. As a result, the City believes that the funding concerns associated with this issue will not have a material adverse effect on the City's ability to make timely payments with respect to the 2009 Bonds.

Proposition 1A of 2004

The California Constitution and existing statutes give the legislature authority over property taxes, sales taxes and the vehicle license fee (the "VLF"). The legislature has authority to change tax rates, the items subject to taxation and the distribution of tax revenues among local governments, schools, and community college districts. The State has used this authority for many purposes, including increasing funding for local services, reducing State costs, reducing taxation, addressing concerns regarding funding for particular local governments, and restructuring local finance.

The California Constitution generally requires the State to reimburse the local governments when the State "mandates" a new local program or higher level of service. Due to the ongoing financial difficulties of the State, it has not provided in recent years reimbursements for many mandated costs. In other cases, the State has "suspended" mandates, eliminating both responsibility of the local governments for complying with the mandate and the need for State reimbursements.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 (described below) dramatically changed the State-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "State-local agreement") in connection with the 2004 Budget Act.

One change related to the reduction of the VLF rate from 2% to 0.65% of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35 percent reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. Proposition 1A of 2004 requires the State to provide local governments with equal replacement revenues.

On November 3, 2004, the voters of the State approved Proposition 1A ("Proposition 1A of 2004") that amended the California Constitution to, among other things, reduce the State Legislature's authority over local government revenue sources by placing restrictions on the State's access to local government's property, sales and vehicle license fee revenues.

The 2004 Budget Act, related legislation and the enactment of Proposition 1A of 2004 (described below) dramatically changed the State-local fiscal relationship. These constitutional and statutory changes implemented an agreement negotiated between the Governor and local government officials (the "State-local agreement") in connection with the 2004 Budget Act.

One change related to the reduction of the VLF rate from 2% to 0.65% of the market value of the vehicle. In order to protect local governments, which had previously received all VLF revenues, the 1.35% reduction in VLF revenue to cities and counties from this rate change was backfilled by an increase in the amount of property tax revenues they receive. This worked to the benefit of local governments, because the backfill amount annually increases in proportion to the growth in secured roll property tax revenues, which has historically grown at a higher rate than VLF revenues. Proposition 1A of 2004 requires the State to provide local governments with equal replacement revenues.

Pursuant to statutory changes made in conjunction with amendments to the Fiscal Year 2008-09 State Budget Act, the Fiscal Year 2009-10 State Budget Act and related budget legislation adopted by the State Legislature and signed by the Governor in February 2009 (collectively, the "February 2009 Budget Package"), the VLF rate will increase from 0.65% to 1.15% effective May 19, 2009. Of this 0.50% increase, 0.35% will flow to the State General Fund, and 0.15% will support various law enforcement programs previously funded by the State General Fund. This increased VLF rate will be effective through Fiscal Year 2010-11.

As part of the State-local agreement, on November 3, 2004 the voters of the State approved Proposition 1A ("Proposition 1A of 2004"). Proposition 1A of 2004 amended the State Constitution to, among other things, reduce the Legislature's authority over local government revenue sources by placing restrictions on the State's access to local governments' property, sales, and VLF revenues as of November 3, 2004. Pursuant to Proposition 1A of 2004, the State is able to borrow up to 8% of local property tax revenues but only if the Governor proclaims such action is necessary due to a severe State fiscal hardship and two-thirds of both houses of the State Legislature approve the borrowing. Any amounts borrowed are required to be repaid within three years. Proposition 1A of 2004 also permits the State to borrow from local property tax revenues for no more than two Fiscal Years within a period of 10 Fiscal Years, and only if previous borrowings have been repaid. In addition, the State cannot reduce the local sales tax rate or restrict the authority of the local governments to impose or change the distribution of the Statewide local sales tax. Proposition 1A of 2004 generally prohibits the State from mandating activities on cities, counties, or special districts without providing the funding needed to comply with the mandates, and if the State does not provide funding for the activity that has been determined to be mandated, the requirement on cities, counties, or special districts to abide by the mandate is suspended. Proposition 1A of 2004 also expanded the definition of what constitutes a mandate to encompass State action that transfers to cities, counties, and special districts financial responsibility for a required program for which the State previously had partial or complete responsibility.

The State mandate provisions of Proposition 1A of 2004 do not apply to schools or community colleges or to mandates relating to employee rights.

Future Initiatives

Article XIII A, Article XIII B, Proposition 218 and Proposition 1A were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City's revenues or its ability to expend its revenues.

THE AUTHORITY

The Authority is a joint powers authority, organized pursuant to a Joint Exercise of Powers Agreement, dated as of June 18, 1990 (the "JPA Agreement"), between the City and the Redevelopment Agency of the City of Stockton. The JPA Agreement was entered into pursuant to the California Government Code, commencing with Section 6500. The Authority is a separate entity constituting a public instrumentality of the State of California and was formed for the public purpose of aiding the financing of projects for the City and the Redevelopment Agency of the City of Stockton.

The Authority is governed by a five-member Board. The City Council constitutes the Board of the Authority. The Administrator and Secretary of the Authority are the City Manager and the City Clerk, the Treasurer/Controller of the Authority is the Chief Financial Officer of the City. The Authority's powers include, but are not limited to, the power to issue bonds and to sell such bonds to public or private purchasers at public or by negotiated sale. The Authority is entitled to exercise the powers common to its members and necessary to accomplish the purposes for which it was formed. These powers include the power to make and enter into contracts; to employ agents and employees; to acquire, construct, manage, maintain and operate buildings, works or improvements; to acquire, hold or dispose of property within the City; and to incur debts, liabilities or obligations.

LITIGATION

There are various claims and legal actions pending against the City, several of which have a reasonable possibility for an unfavorable outcome. The nature of these legal actions involve property claims, personal injury, civil rights violations, challenges to the City's Emergency Communications System Access Fee a lawsuit seeking to invalidate the City's past practice of charging an in lieu of property tax fee to the utility funds (see "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES, REVENUES AND APPROPRIATIONS–Proposition 218–*Emergency Communications System Access Fee Litigation*" and "*–Howard Jarvis Taxpayers Assoc., et al. v. City of Stockton*"), the City's building permit and inspection fees (described below) and the City's vehicle forfeiture ordinance,.

On May 8, 2008, a complaint for declaratory and injunctive relief *Building Industry Association of the Delta v. City of Stockton, et al.* (San Joaquin Superior Court No. 39-2008-00184005-CU-JR-STK) was filed alleging that the City diverted approximately $13 million from the Public Facilities Fees (the "PFF") account for construction of the Stockton Events Center, accumulated more than $40 million in excessive building permit fees and diverted approximately $25 million for non building related purposes.

The City contended that from FY 1992-93 through FY 2001-02, the revenues generated from the collection of building permit fees were insufficient to cover the costs of the services provided by the City's Community Development Department (which during that time was accounted for in the General

Fund) and therefore the City was required to use General Fund monies to subsidize these services (hereafter, the "Development Services Loan"). The balance of the Development Services Loan in Fiscal Year 2002-03 was $39,812,120. From Fiscal Year 2002-03 through Fiscal Year 2006-07, the City made several transfers from the Development Services Fund toward repayment of the Development Services Loan. At the beginning of Fiscal Year 2007-08, the remaining balance of the Development Services Loan was $8,062,120.

In December 2008, the City completed a fee study which recommended reductions of the building permit fees for production homes by approximately 45% and increases in the fees on tenant improvements by approximately 100%.

During the Fiscal Year 2007-08 annual financial audit, a prior period adjustment in the amount of $8,062,120 was recorded to establish the remaining balance of $39,812,120 as of June 30, 2008 of the prior year advance from the General Fund to the Development Services Fund. The advance consisted of a General Fund subsidy of development services activity from Fiscal Year 1992-93 through Fiscal Year 2001-02. In Fiscal Year 2002-03, Development Services was removed from the General Fund and established as a special revenue fund. Since that time the City's Annual Budgets had authorized operating transfers from the Development Services Fund to the General Fund to repay this obligation. These prior period adjustments established the remaining balance of $8,062,120 as a General Fund advance to other funds and a Development Services advance from other funds. These offsetting adjustments resulted in no effect on total beginning fund balances. The prior audit adjustment was reflected as a restricted reserve of fund balance within the General Fund.

On July 7, 2009, the City Council accepted the terms of a negotiated settlement agreement resulting in:(i)within 120 days, (A) consideration by the City to modify the Building Permit Fee as recommended in the December 2008 fee study, (B) establishing a "Development Oversight Commission" (the "DOC") comprised of building professionals and industry representatives, as well as members of the public appointed by the City Council to review the PFF program and Development Services functions, provide recommendations to the City Council regarding a comprehensive update to the City's planning fees and all transfers or loans from restricted accounts, and make recommendations to the City Council with respect to the implementation of a reserve policy to fund operations of the Community Development Department, and (C) amendment of the PFF Administrative Guidelines to provide that any proposed transfer or loan from a restricted account first be presented to the DOC and then presented to the City Council as a separate agenda item; (iii) payment of BIA's attorney's fees (in the approximate amount of $195,000); and (iii) forgiveness by the City of the remaining balance of the Development Service Loan, recorded as a loan receivable asset (and equity restricted reserve) in the General Fund in the amount of $8,062,120.

Pursuant to the terms of the settlement agreement, the $8,062,120 restricted reserve loan balance, will be forgiven thus reducing the overall fund balance while maintaining the available fund balance at the same level as previously estimated. As a result, the City believes that the funding concerns associated with this issue will not have a material adverse effect on the City's ability to make timely payments with respect to the 2009 Bonds.

There is no controversy or litigation now pending against the Authority or the City or, to the knowledge of their officers, threatened, restraining or enjoining the sale, execution or delivery of the 2009 Bonds or the Lease Agreement or the Indenture or in any way contesting or affecting the validity of the 2009 Bonds or the Lease Agreement or the Indenture.

TAX MATTERS

Federal tax law contains a number of requirements and restrictions which apply to the Bonds, including investment restrictions, periodic payments of arbitrage profits to the United States, requirements regarding the proper use of bond proceeds and the facilities financed therewith, and certain other matters. The Authority and the City have has covenanted to comply with all requirements that must be satisfied in order for the interest on the Bonds to be excludable from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.

Subject to the Authority's and the City's compliance with the above-referenced covenants, under present law, in the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, interest on the Bonds (i) is excludable from the gross income of the owners thereof for federal income tax purposes, (ii) is not included as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations, and (iii) is not taken into account in computing "adjusted current earnings" as described below.

The Internal Revenue Code of 1986, as amended (the "Code"), includes provisions for an alternative minimum tax ("AMT") for corporations in addition to the corporate regular tax in certain cases. The AMT for a corporation, if any, depends upon the corporation's alternative minimum taxable income ("AMTI"), which is the corporations' taxable income with certain adjustments. One of the adjustment items used in computing the AMTI of a corporation (with certain exceptions) is an amount equal to 75% of the excess of such corporation's "adjusted current earnings" over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). "Adjusted current earnings" would generally include certain tax-exempt interest, but not interest on the Bonds.

In rendering its opinion, Bond Counsel will rely upon certifications of the Authority and the City with respect to certain material facts within their respective knowledge. Bond Counsel's opinion represents its legal judgment based upon its review of the law and the facts that it deems relevant to render such opinion and is not a guarantee of a result.

Ownership of the Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, corporations subject to the branch profits tax, financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to applicability of any such collateral consequences.

The issue price (the "Issue Price") for each maturity of the Bonds is the price at which a substantial amount of such maturity of the Bonds is first sold to the public. The Issue Price of a maturity of the Bonds may be different from the price set forth, or the price corresponding to the yield set forth, on the cover page hereof.

Owners of Bonds who dispose of Bonds prior to the stated maturity (whether by sale, redemption or otherwise), purchase Bonds in the initial public offering, but at a price different from the Issue Price, or purchase Bonds subsequent to the initial public offering, should consult their own tax advisors.

If a Bond is purchased at any time for a price that is less than the Bond's stated redemption price at maturity (the "Reduced Issue Price"), the purchaser will be treated as having purchased a Bond with market discount subject to the market discount rules of the Code (unless a statutory de minimis rule applies). Accrued market discount is treated as taxable ordinary income and is recognized when a Bond is disposed of (to the extent such accrued discount does not exceed gain realized) or, at the purchaser's

election, as it accrues. Such treatment would apply to any purchaser who purchases a Bond for a price that is less than its Revised Issue Price. The applicability of the market discount rules may adversely affect the liquidity or secondary market price of such Bond. Purchasers should consult their own tax advisors regarding the potential implications of market discount with respect to the Bonds.

An investor may purchase a Bond at a price in excess of its stated principal amount. Such excess is characterized for federal income tax purposes as "bond premium" and must be amortized by an investor on a constant yield basis over the remaining term of the Bond in a manner that takes into account potential call dates and call prices. An investor cannot deduct amortized bond premium relating to a tax-exempt bond. The amortized bond premium is treated as a reduction in the tax-exempt interest received. As bond premium is amortized, it reduces the investor's basis in the Bond. Investors who purchase a Bond at a premium should consult their own tax advisors regarding the amortization of bond premium and its effect on the Bond's basis for purposes of computing gain or loss in connection with the sale, exchange, redemption or early retirement of the Bond.

There are or may be pending in the Congress of the United States legislative proposals, including some that carry retroactive effective dates, that, if enacted, could alter or amend the federal tax matters referred to above or affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether, if enacted, it would apply to bonds issued prior to enactment. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

The Internal Revenue Service (the "Service") has an ongoing program of auditing tax exempt obligations to determine whether, in the view of the Service, interest on such tax exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted whether or not the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service may treat the Issuer as a taxpayer and the Bondholders may have no right to participate in such procedure. The commencement of an audit could adversely affect the market value and liquidity of the Bonds until the audit is concluded, regardless of the ultimate outcome.

Payments of interest on, and proceeds of the sale, redemption or maturity of, tax exempt obligations, including the Bonds, are in certain cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any Bond owner who fails to provide an accurate Form W 9 Request for Taxpayer Identification Number and Certification, or a substantially identical form, or to any Bond owner who is notified by the Service of a failure to report any interest or dividends required to be shown on federal income tax returns. The reporting and backup withholding requirements do not affect the excludability of such interest from gross income for federal tax purposes.

In the further opinion of Bond Counsel, interest on the Bonds is exempt from California personal income taxes.

Ownership of the Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should consult their tax advisors regarding the applicability of any such state and local taxes.

The complete text of the final opinion that Bond Counsel expects to deliver upon the issuance of the Bonds is set forth in APPENDIX E–"PROPOSED FORM OF BOND COUNSEL OPINION."

RATING

Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc. ("S&P") has assigned an underlying rating of "A" to the 2009 Bonds. Such rating reflects only the views of S&P and any desired explanation of the significance of such rating should be obtained from S&P at the following address: Standard & Poor's Corporation, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such rating will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the respective rating agency, if in the judgment of such rating agency may have an adverse effect on the market price of the 2009 Bonds.

APPROVAL OF LEGALITY

Legal matters incident to the delivery of the 2009 Bonds are subject to the approving opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel. Copies of such opinion will be available at the time of delivery of the 2009 Bonds. Certain matters will be passed upon for the City and the Authority by the City Attorney for the City, the Authority and the Underwriter by Lofton & Jennings, San Francisco, California, Disclosure Counsel and for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California, Underwriter's Counsel.

The compensation of Bond Counsel and Disclosure Counsel are contingent upon the execution and delivery of the 2009 Bonds.

FINANCIAL ADVISOR

Del Rio Advisors, LLP, Modesto, California, has served as Financial Advisor to the City with respect to the sale of the 2009 Bonds. The Financial Advisor has assisted the City in the review of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the 2009 Bonds. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. Due to their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein.

The Financial Advisor will receive compensation from the City contingent upon the sale and delivery of the 2009 Bonds.

UNDERWRITING

The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

The 2009 Bonds are being purchased by RBC Capital Markets Corporation (the "Underwriter"). The Underwriter has agreed, subject to certain conditions, to purchase such 2009 Bonds at the purchase price of $34,010,178.20 (representing the aggregate principal amount of the 2009 Bonds of $35,080,000, less an original issue discount in the amount of $775,149.80, and less an Underwriter's discount in the amount of $294,672.00). The Purchase Contract, dated August 20, 2009 relating to the 2009 Bonds (the "Purchase Contract") provides that the Underwriter will purchase all of the 2009 Bonds if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions.

The Underwriter may offer and sell the 2009 Bonds to certain dealers and others at prices lower than the offering prices stated on the inside cover page. The offering prices may be changed from time to time by the Underwriter.

CONTINUING DISCLOSURE

The City has covenanted for the benefit of holders and beneficial owners of the 2009 Bonds to provide annually, while any Certificates are outstanding, certain financial information and operating data relating to the 2009 Bonds by not later than 270 days after the end of each fiscal year (the "Annual Report") commencing with the report for the Fiscal Year 2008-09, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and any notices of material events will be filed by the City with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access site. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in APPENDIX D–"FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

The City has timely filed all of its prior annual reports and material event notices, if any. However, in several cases, certain items of information required to be contained in such reports were unintentionally omitted. As of the date hereof, the City has filed all required missing informational items for such reports. As a result of the implementation of certain administrative changes, the City believes it will be in full compliance with its continuing disclosure obligations in the future.

(Remainder of this Page Intentionally Left Blank)

MISCELLANEOUS

The summaries and descriptions of provisions of the Indenture, the Site and Facility Lease, the Lease Agreement, the Continuing Disclosure Certificate, the purchase contract pursuant to which the Underwriter is purchasing the 2009 Bonds, and all references to other materials not purporting to be quoted in full are qualified in their entirety by reference to the complete provisions of the documents and other materials summarized or described. Copies of such documents may be obtained from the Trustee or, during the offering period, from the Underwriter. The Appendices are integral parts of this Official Statement and must be read together with all other parts of this Official Statement.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement does not constitute an agreement between the Authority, the City or the Underwriter and the purchasers or owners of any of the 2009 Bonds.

This Official Statement, and its distribution and use by the Underwriter, has been duly authorized and approved by the City and the Authority.

STOCKTON PUBLIC FINANCING AUTHORITY

By: /s/ Mark Moses
Treasurer

CITY OF STOCKTON

By: /s/ Mark Moses
Chief Financial Officer

(This Page Intentionally Left Blank)

APPENDIX A

GENERAL, ECONOMIC AND DEMOGRAPHIC INFORMATION RELATING TO THE CITY OF STOCKTON

The following information concerning the City and surrounding areas is included only for the purpose of supplying general information regarding the community. The 2009 Bonds are not a debt of the City, the State or any of its political subdivisions and neither the City, the State, nor any of its political subdivisions is liable therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE 2009 BONDS."

Overview

The City is a charter city incorporated in 1850. The City is the county seat of San Joaquin County and is located in California's San Joaquin Valley, 78 miles east of the San Francisco Bay Area, 345 miles north of Los Angeles and 45 miles south of Sacramento. The County of San Joaquin covers approximately 1,400 square miles. The County is bounded by Sacramento County on the north and by Stanislaus County on the south. The City is a municipal corporation and a chartered city, duly organized and existing under the constitution and laws of the State.

The City is one of the fastest growing areas in California. Since the County has large and growing services, retail trade and manufacturing employment sectors. Agriculture and agricultural related industries, such as food processing, are also major employers in the County.

Governing Body

The City operates under a Council/Manager form of government, with a seven-member City Council (current members were elected by district voting) for staggered four-year terms. Under this form of government, policy making and legislative authority is entrusted to the City Council. The Mayor and representatives from six districts by City-wide election for staggered four-year terms, with a two-term limit. Newly elected representatives are sworn in on the first Tuesday of January of each even-numbered year. The City Council is also the governing board of the Redevelopment Agency.

The City Manager is responsible for carrying out policies and ordinances of the City Council for appointing heads of departments and overseeing the operation of the City. The City Manager, the City Attorney, the City Auditor and the City Clerk are appointed by the City Council.

(Remainder of this Page Intentionally Left Blank)

The Mayor, current members of the City Council and key administrative personnel of the City are listed in Table A-1 and Table A-2, respectively.

TABLE A-1
CITY OF STOCKTON
Mayor and City Councilmembers

Name	Office	Term Expires	Occupation
Ann Johnston	Mayor	12/31/12	Retired
Katherine M. Miller	Vice Mayor, *District 2*	12/31/12	Attorney
Elbert H. Holman	Councilmember, *District 1*	12/31/10	Businessman
Leslie Baranco Martin	Councilmember, *District 3*	12/31/10	Businessman
Diana Lowery	Councilmember, *District 4*	12/31/12	Educator
Susan Talamantes Eggman	Councilmember, *District 5*	12/31/10	Associate Professor
Dale Fritchen	Councilmember, *District 6*	12/31/12	Retired

TABLE A-2
CITY OF STOCKTON
Key Administrative Personnel

Member	Position
J. Gordon Palmer, Jr.	City Manager
Richard (Ren) E. Nosky, Jr.	City Attorney
Mark Moses	Chief Financial Officer
Janet Salvetti	Assistant Director of Administrative Services
Kathleen VonAchen	Finance Officer
Joe Maestretti	Budget Officer
Katherine Gong Meissner	City Clerk

The City provides a full range of municipal services. As provided in the City Charter, these services include public safety (police, fire, paramedics, water rescue and building inspection), sanitation (solid waste disposal, wastewater and stormwater utilities), water utility, community development, library, parks and recreation and general administrative services. Budgeted City full-time employees number 1,584 for Fiscal Year 2009-10, all of which are full-time permanent employees. Of the full-time employees, 558 are assigned to the Police Department and 296 to the Fire Department. Fire protection service is provided by the City, which has 13 stations and one fire training facility within its borders.

(Remainder of this Page Intentionally Left Blank)

Population

Population information is set forth in Table A-3.

TABLE A-3
CITY OF STOCKTON, COUNTY OF SAN JOAQUIN AND STATE OF CALIFORNIA
Population
(As of January 1)

Year	City of Stockton	County of San Joaquin	State of California
2000(1)	243,771	563,598	33,838,086
2005	278,858	652,248	36,676,931
2006	284,509	664,889	37,086,191
2007	287,189	674,331	37,472,074
2008	288,499	682,316	37,883,992
2009(2)	290,409	689,480	38,292,687

(1) Decennial Census.
(2) Preliminary.
Source: U.S. Census Bureau for the decennial census. California State Department of Finance, Table 2: E-4Population Estimates for Cities, Counties and State, 2001-2009 with 2009 Benchmark.

(Remainder of this Page Intentionally Left Blank)

Labor Force and Employment

Table A-4 table represents the labor patterns in the City, the County, the State, and the United States from 2004 through 2008.

Table A-4
CITY OF STOCKTON, SAN JOAQUIN COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
Civilian Labor Force, Employment, and Unemployment
2004 through 2008

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
2008				
City	123,900	108,200	15,800	12.7%
County	297,200	266,100	31,000	10.4
State	18,391,800	17,059,600	1,332,300	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2007				
City	122,400	110,100	12,300	10.0
County	295,000	270,800	24,200	8.2
State	18,188,100	17,208,900	979,200	5.4
United States	153,124,000	146,047,000	7,078,000	4.6
2006				
City	119,200	108,300	10,900	9.1
County	287,800	266,400	21,400	7.4
State	17,901,900	17,029,300	872,600	4.9
United States	151,428,000	144,427,000	7,001,000	4.6
2005				
City	118,400	107,500	10,900	9.2
County	285,900	264,000	21,900	7.6
State	17,740,400	16,782,300	958,100	5.4
United States	149,321,000	141,730,000	7,591,000	5.1
2004				
City	117,400	105,300	12,100	10.3
County	283,000	258,600	24,400	8.6
State	17,538,800	16,444,500	1,094,300	6.2
United States	147,401,000	139,252,000	8,149,000	5.5

Sources: California State Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.

Employment and Industry

Approximately 3,000 acres in the City are zoned for light and heavy industry. Included in this acreage are 15 industrial parks with all on/site improvements. Six industrial parks are rail served.

The largest employers in the City as of Fiscal Year 2007-08 are set forth in Table A-5.

Table A-5
CITY OF STOCKTON
Largest Employers Fiscal Year 2007-08

Company	Product/Service	Employees
San Joaquin County†	County Government	6,700
Stockton Unified School District	Public Education	4,100
St. Joseph's Regional Health System	Health Care	2,650
City of Stockton	City Government	1,754
Dameron Hospital	Health Care	1,200
Kaiser Permanente	Health Care	1,060
Diamond Walnut	Food Processing	1,000
Washington Mutual	Banking	650
University of the Pacific	Private College	1,000
California Department of Transportation	State Highways	750

† Includes employees of the San Joaquin General Hospital.
Source: City of Stockton Economic Development Department and Human Resources Department.

(Remainder of this Page Intentionally Left Blank)

The Industry Employment and Labor Force for the Stockton Metropolitan Statistical Area (MSA) are set forth in Table A-6. The central city of the Stockton MSA is the City.

Table A-6
STOCKTON MSA
Industry Employment† and Labor Force
By Annual Average
March 2008 Benchmark

	2004	2005	2006	2007	2008
Total All Industries	216,500	221,000	223,400	225,900	221,000
Agriculture	16,000	15,200	14,300	14,500	14,900
Nonagriculture	200,700	205,800	209,100	211,500	206,100
Goods Producing	36,200	37,800	37,700	35,900	33,000
Manufacturing	20,700	20,900	21,700	21,900	21,400
Wholesale Trade	8,200	9,100	9,800	10,500	10,500
Retails Trade	25,900	26,900	27,200	26,900	25,600
Transportation, Warehousing, Utilities	13,300	13,000	13,500	13,900	14,300
Information	2,800	2,600	2,500	2,500	2,300
Financial Activities	9,600	9,800	9,900	9,900	9,300
Professional and Business Services	17,900	18,100	18,500	18,300	17,400
Education and Health Services	24,400	25,600	26,100	27,700	28,500
Leisure and Hospitality	16,800	17,100	17,300	17,800	17,500
Other Services	6,300	6,400	6,800	7,700	7,600
Government	39,400	39,600	39,600	40,300	40,300

† Industry employment is by place of work; excludes self-employed individuals, unpaid family workers, and household domestic workers on strike.

Source: State of California Employment Development Department, Labor Market Information Division.

Personal Income

Total personal income is defined by the Bureau of Economic Analysis, an agency of the U.S. Department of Commerce, as income received from all sources, including income received from participation in production as well as from government and business transfer payments. It represents the sum of compensation received by employees, supplements to wages and salaries, proprietors' income with inventory valuation adjustment and capital consumption adjustment (the "CCAdj"), rental income of persons with the CCAdj, personal income receipts on assets, and personal current transfer receipts, less contributions for government social insurance. Per capita income is calculated as the personal income divided by the resident population based upon the Census Bureau's annual midyear population estimates.

(Remainder of this Page Intentionally Left Blank)

Table A-7 summarizes the total personal income and per capita income for the Stockton Metropolitan Statistical Area (an "MSA"), the State and the United States for the calendar years 2004 through 2008. The principal city for the Stockton MSA is the City.

Table A-7
STOCKTON METROPOLITAN AREA,
STATE OF CALIFORNIA AND UNITED STATES
Personal Income

Year and Area	Personal Income (millions of dollars)	Per Capita Personal Income (dollars)
2008†		
Stockton MSA	N/A	N/A
State	$1,569,370	$42,696
United States	12,086,534	39,751
2007		
Stockton MSA	$19,195	$28,739
State	1,520,755	41,805
United States	11,634,322	38,615
2006†		
Stockton MSA	18,273	27,144
State	1,434,910	39,358
United States	10,966,808	36,629
2005		
Stockton MSA	17,332	26,071
State	1,347,943	36,936
United States	10,284,378	34,471
2004		
Stockton MSA	16,603	25,570
State	1,265,657	35,380
United States	9,711,271	33,090

† Preliminary.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

(Remainder of this Page Intentionally Left Blank)

Construction Activity

Building activity for the past five years for which data is available in the City is shown in Table A-8.

Table A-8
CITY OF STOCKTON
Total Building Permit Valuations†
($ in thousands)

	2004	2005	2006	2007	2008
Permit Valuation					
New Single Family	$585,834.6	$532,975.4	$233,156.2	$151,268.0	$43,049.2
New Multiple Family	6,735.1	6,857.5	9,925.8	10,887.0	708.0
Residential Alterations/Additions	14,781.1	20,192.0	18,172.9	15,224.9	13,773.0
TOTAL RESIDENTIAL	$607,350.9	$560,024.9	$261,254.9	$177,379.9	$57,530.1
New Commercial	$59,935.1	$100,896.4	$94,168.5	$151,461.9	$153,853.4
New Industrial	25,704.5	7,124.3	27,647.5	73,777.8	37,145.9
New Other	28,639.5	28,396.9	27,823.7	73,051.9	13,264.9
Commercial Alternations/Additions	42,698.3	40,874.2	49,685.5	58,239.2	62,446.4
TOTAL NONRESIDENTIAL	$156,977.4	$177,291.9	$199,325.1	$356,530.8	$266,710.6
New Dwelling Units					
Single Family	3,138	2,312	929	617	164
Multiple Family	136	83	91	89	8
TOTAL	3,274	2,395	1,020	706	172

† Certain columns may not total due to rounding.
Source: Construction Industry Research Board, Building Permit Summary.

Public Impact Fees

In July 1988, the City Council adopted Ordinance No. 56-88 C.S. (the "Ordinance") establishing procedures for the collection and expenditure of fees imposed as a condition of new development within the City. Pursuant to the Ordinance, impact fees are imposed for each of the following types of public facilities: Air Quality Mitigation, City Office Space, Community Recreation Centers, Fire Stations, Libraries, Parkland, Street Tree and Street Signs, Police Stations, Public Facilities Fees Administration, Street Light In-Lieu and Traffic Signals.

The City expects that the Public Facilities Impact Fees generated from the General City Office Space, Fire Stations, Parkland, Street Tree and Street Signs and Police Stations will be sufficient to pay the debt service, when due on the 2009 Bonds. See also "SECURITY AND SOURCES OF PAYMENT FOR THE 2009 BONDS" and "CITY FINANCIAL INFORMATION."

The table below summarizes revenues and expenditures for the Public Facilities Impact Fees Capital Projects Fund for Fiscal Year 2003-04 through 2007-08.

Table A-9
CITY OF STOCKTON
Statement of Revenues, Expenditures and Charges in Fund Balances
Public Facilities Impact Fees
Fiscal Years 2003-04 through 2007-08
($ in thousands)

	2003-04	2004-05	2005-06	2006-07	2007-08
REVENUES:					
Intergovernmental:					
Other government	0	0	0	$44	0
Charges for services	$28,122	$26,141	$28,179	21,468	$24,251
Use of money and property	47	67	48	29	86
Investment income:					
Interest income	1,373	1,397	1,313	2,496	2,896
Net increase (decrease) in fair value of investments	(1,111)	107	140	648	450
Refunds and reimbursements	0	1	3	2	3
Miscellaneous	0	88	0	0	0
TOTAL REVENUES	28,431	27,801	29,683	24,687	27,686
EXPENDITURES:					
General government	1,292	2,049	2,194	0	0
Public safety	152	196	144	0	0
Public works	1,761	974	1,060	0	0
Library	255	268	1,042	0	0
Park and recreation	355	123	421	0	0
Capital Outlay	22,096	26,453	16,639	20,847	26,029
TOTAL EXPENDITURES	25,911	30,063	21,500	20,847	26,029
Excess (deficiency) of revenues Over (under) expenditures (Budgetary Basis)	2,520	(2,262)	8,183	3,840	1,657
OTHER FINANCING USES:					
Transfers out	(199)	(146)	(147)	(89)	(137)
Net change in Fund Balance (Budgetary Basis)	2,321	(2,408)	(14,071)	3,751	1,520
BASIS ADJUSTMENT:					
Encumbrances	0	0	22,107	0	0
Net Change in Fund Balance (GAAP Basis)	0	0	8,036	0	0
Fund Balance, Beginning of Year	47,297	49,618	47,210†	55,246	58,997
Fund Balance, End of Year	$49,618	$47,210	$55,246	$58,997	$60,517

† Restated.
Sources: Comprehensive Annual Financial Reports for the Fiscal Years ended June 30, 2004 through 2008.

Transportation

The City is located on Interstate 5, the West Coast's major route from Canada to Mexico. The City's cross-town freeway connects Interstate 5 with State Route 99, the State's other principal north-south freeway, and State Route 99, California's other principal north-south highway. The City also benefits from direct highway connections to the San Francisco Bay Area via Interstate 580, and to the Reno-Lake Tahoe area via Interstate 80. Thirty-five major transcontinental truck lines and nearly 200 contract carriers serve the City and provide overnight delivery to Los Angeles, San Francisco and Reno. The City is also served by Greyhound and the San Joaquin Regional Transit District.

The City is served by the rail services of Santa Fe, Southern Pacific, and Union Pacific systems in addition to three short line railroads: Central California Traction Company, Tidewater Southern, and Stockton Terminal and Eastern Railroad. Passenger service is provided by Amtrak.

The Stockton Metropolitan Airport, located on 1,449 acres on the southern boundary of the City, is a general aviation facility offering both passenger and freight transport services. It has six air carrier gates adjoining a 44,355 square foot terminal building.

The Port of Stockton is the largest inland deep water port in the State. It is located on the Stockton deepwater ship channel and encompasses a 2,000 acre operating area. The Port has berthing space for 17 vessels, 1.1 million square feet of dockside transit sheds and shipside rail trackage, and 7.7 million square feet of warehousing, and is 75 nautical miles east of the Golden Gate Bridge.

Railroad service is provided to the City by Burlington Northern, Santa Fe and the Union Pacific railroads. Daily passenger service by Amtrak is available to San Francisco, Los Angeles and Sacramento.

Education and Recreation

Education. Within the City, there are five post-secondary institutions, San Joaquin Delta Community College, California State University Stanislaus-Stockton (extension), University of the Pacific, Humphrey's College and School of Law and National University (private).

The majority of students living within City limits attend schools operated by one of four unified school districts providing kindergarten through grade 12 education: the Stockton Unified School District, the Lodi Unified School District, the Lincoln Unified School District and the Manteca Unified School District. In Fiscal Year 2007-08, the most recent data available, according to State Department of Education data, 38,408 students attended classes in the Stockton Unified School District. There are five high schools, four middle schools, 41 elementary schools (kindergarten through grade 6), one kindergarten through grade 12 school, one alternative school, two community day schools, two special education schools, one continuation school and three charter schools in the Stockton Unified School District. Preschool and adult education classes are also offered by the Stockton Unified School District.

In Fiscal Year 2007-08, 16,390 students attended classes in the Lodi Unified School District located within the City (three high schools, one continuation school, three middle and/or junior high schools, 12 elementary (kindergarten through grade 6) schools and one alternative school); 8,572 attended schools in the Lincoln Unified School District located within the City (one high school, one continuation high school, one middle school, seven kindergarten through grade 8 schools and two kindergarten through grade six schools); and 5,126 students attended schools in Manteca Unified School District located within the City (two high schools and three kindergarten through grade eight schools).

The Escalon Unified School District, the Holt Union Elementary School District, the Linden Unified School District, the Tracy Unified School District and the County Office of Education also operate schools located within the City.

There are also more than 20 private schools located within the City offering elementary and secondary education.

There is also one central, three branch City libraries and two mobile library units holding more than one million books in the collection. There are also seven County library branches located within the City.

Recreation. The City is situated along the San Joaquin Delta waterway which connects to the San Francisco Bay and the Sacramento and San Joaquin Rivers and is also located in close proximity to Lake Tahoe and Yosemite National Park. There are approximately 619 acres of parkland located within the City.

The Stockton Children's Museum is located in downtown Stockton and offers educational experiences based upon hands-on, play-based exhibits that enhance a child's understanding of how the world works. The Museum features more than a dozen different child-sized environments that recreate the ambience of a small city where merchants, bankers and doctors might mingle among the grocery shoppers, fast food customers and canning crew.

The 5,000 seat Stockton Ballpark that opened in April 2005 is the home of the Stockton Ports single A minor league team for the Oakland Athletics features four luxury suites, lawn seating, a family recreation area and a barbeque area with umbrella seating behind the outfield.

The City Centre Cinema Complex in downtown Stockton offers a 16-screen movie theater, restaurants and retail shopping.

The 220,000 square foot, 10,000 seat Stockton Arena is the home of the California Cougars Major Indoor League Soccer Team, the Stockton Thunder Minor League Hockey Team and the Stockton Lightning Arena Football Team. A seven-level, 236,100 square foot, 592-space Event Center parking structure, located adjacent to the Stockton Arena includes 16,997 square feet of office/retail space.

The 2,042-seat Bob Hope Theater is located in the historic former Fox Theater that was constructed in 1930. This performing arts center hosts national and local theatrical, musical, comedy and dance productions.

The Gary & Janice Podesto IMPACT Teen Center, located in downtown Stockton, features four bowling lanes, a half-court basketball area, stage, meeting rooms, game rooms, classrooms, a computer lab, snack bar, and a climbing wall.

The City also operates a Skate Park and Ice Arena and offers various other sports and recreational opportunities through the City Park and Recreation Department.

(This Page Intentionally Left Blank)

APPENDIX B

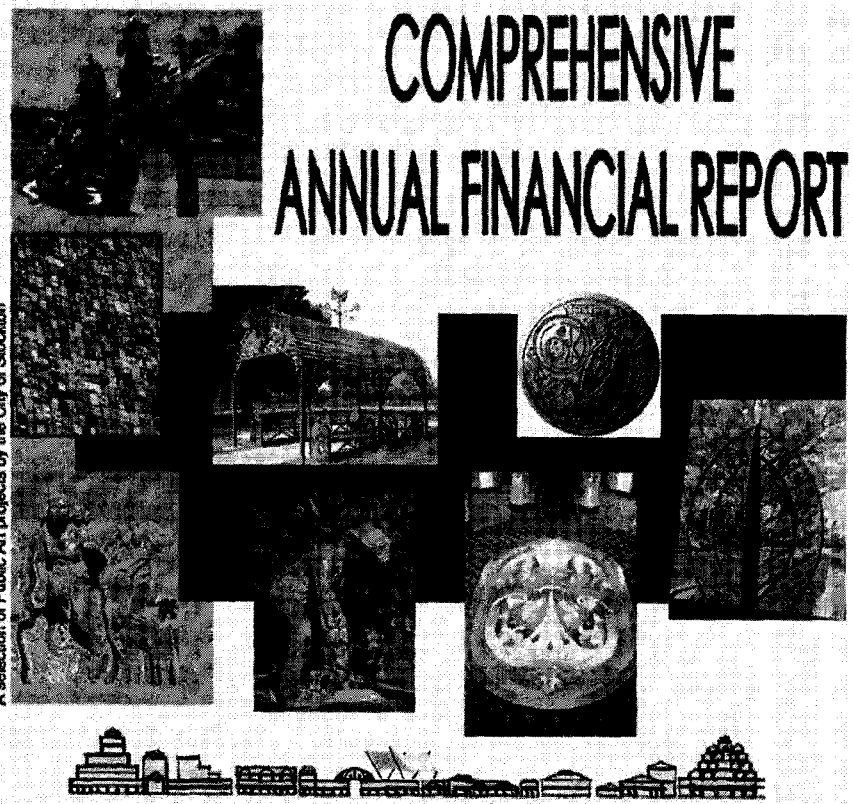
CITY OF STOCKTON COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2008

(This Page Intentionally Left Blank)

Case 12-32118 Filed 04/21/14 Doc 1372

CITY OF STOCKTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT



A selection of Public Art projects by the City of Stockton

FOR THE FISCAL YEAR ENDED JUNE 30, 2008

STOCKTON, CALIFORNIA

CITY OF STOCKTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2008
CITY OF STOCKTON, CALIFORNIA

Prepared and Issued by
The Department of Financial Management

MARK L. MOSES
Director of Financial Management/CFO

JANET M. SALVETTI
Assistant Director of Financial Management

CTY206505

Case 12-32118 Filed 04/21/14 Doc 1372

CITY OF STOCKTON

INTRODUCTORY SECTION

CITY OF STOCKTON

COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2008
TABLE OF CONTENTS

	Page(s)
INTRODUCTORY SECTION:	
Table of Contents	I-III
Letter of Transmittal	V-XV
Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting	XVI
Organization Chart/List of Principal Officials	XVII-XVIII
FINANCIAL SECTION:	
Independent Auditor's Report	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)	3-22
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	23
Statement of Activities	24-25
Fund Financial Statements:	
Balance Sheet – Governmental Funds	30-31
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	33
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	34-37
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	39
Statement of Net Assets – Proprietary Funds	40-41
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	42-43
Statement of Cash Flows – Proprietary Funds	44-47
Statement of Fiduciary Net Assets – Agency Funds	48
Notes to the Financial Statements	49-99
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedules of Defined Benefit Pension Plans Funded Status:	
Safety Plan	101
Miscellaneous Plan	101
Schedule of Defined OPEB Plan Funded Status	103
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – On a Budgetary Basis – General Fund	104-105
Notes to the Required Supplementary Information	106-108

CTY206506

	Page(s)
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES:	
Combining Balance Sheet – Nonmajor Governmental Funds	112-117
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	118-123
Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – On a Budgetary Basis:	
Public Facilities Impact Fees Major Capital Projects Fund	124
Capital Improvement Major Capital Projects Fund	125
Solid Waste & Recycling Nonmajor Special Revenue Fund	126
Gas Tax Nonmajor Special Revenue Fund	127
Measure K Sales Tax Nonmajor Special Revenue Fund	128
Measure W Public Safety Tax Nonmajor Special Revenue Fund	129
City-County Library Nonmajor Special Revenue Fund	130
Special Assessments Nonmajor Special Revenue Fund	131
Emergency Communication Nonmajor Special Revenue Fund	132
Recreational Services Nonmajor Special Revenue Fund	133
Development Services Nonmajor Special Revenue Fund	134
Other Special Revenue Nonmajor Special Revenue Fund	135
Combining Statement of Net Assets – Nonmajor Enterprise Funds	138
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds	139
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	140
Combining Statement of Net Assets – Internal Service Funds	142-143
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Internal Service Funds	144-145
Combining Statement of Cash Flows – Internal Service Funds	146-149
Statements of Changes in Assets and Liabilities – Agency Funds	152-154
Capital Assets Used in the Operation of Governmental Funds:	
Comparative Schedule by Source	155
Schedule by Function	156
Schedule of Changes by Function	157
STATISTICAL SECTION (UNAUDITED):	
Financial Trend Information:	
Net Assets by Component	161
Changes in Net Assets	162-163
Fund Balances, Governmental Funds	164-165
Changes in Fund Balances of Governmental Funds	166-169
Tax Revenues by Source, Governmental Funds	170-171

	Page(s)
STATISTICAL SECTION (UNAUDITED) (Continued):	
Revenue Capacity Information:	
Assessed Value and Estimated Actual Value of Taxable Property	172-173
Direct and Overlapping Property Tax Rates	174
Principal Property Tax Payers	175
Property Tax Levies and Collections	176
Water Sold by Type of Customer	177
Water and Wastewater Rates	179
Debt Capacity Information:	
Ratios of Outstanding Debt by Types	180-181
Ratios of General Bonded Debt Outstanding	182
Direct and Overlapping Governmental Activities Debt	183
Legal Debt Margin Information	184-185
Pledged-Revenue Coverage	186-187
Demographic and Economic Information:	
Demographic and Economic Statistics	188
Principal Employers	189
Operating Information:	
Full-Time Equivalent City Government Employees by Function/Program/Department	191
Operating Indicators by Function/Program/Department	192-195
Capital Asset Statistics by Function/Program/Department	196-198
SINGLE AUDIT	
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	199-201
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	202-203
Schedule of Expenditures of Federal Awards	204-206
Notes to the Schedule of Expenditures of Federal Awards	207-210
Schedule of Findings and Questioned Costs	211-216
Schedule of Prior Audit Findings	217

Case 12-32118 Filed 04/21/14 Doc 1372

CTY206507

CITY OF STOCKTON
ADMINISTRATIVE SERVICES - ACCOUNTING
City Hall • 425 N. El Dorado Street • Stockton, CA 95202-1997 • 209/937-8571 • Fax 209/937-8822
www.stocktongov.com

November 12, 2008

Honorable Mayor,
Members of the City Council and
Citizens of the City of Stockton, California

The Stockton City Charter and California state law require that the City of Stockton, California (City) publish a complete set of financial statements presented in conformance with generally accepted accounting principles (GAAP) and audited by a firm of licensed certified public accountants. Pursuant to that requirement, it is with pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the City of Stockton for the fiscal year ended June 30, 2008.

The Governmental Accounting Standards Board (GASB) establishes the formal accounting standards for all local and state governments in the United States and Canada, and its counterpart in the private-sector is the Financial Accounting Standard Board (FASB). Both GASB and FASB require that financial transactions follow generally accepted accounting principles, referred to as GAAP.

GASB's accounting pronouncement in their Statement No. 34 directed governments to develop a significantly different financial reporting model. All local governments across the United States and Canada are required to comply with the GASB 34 financial reporting model, including the City of Stockton's compliance since fiscal year 2001-02. The GASB 34 financial reporting model seeks to provide better financial disclosure of government operations – to bring governments closer to the financial reporting required in the private-sector by disclosing fully depreciated asset values and utilizing full accrual accounting, rather than the modified accrual accounting used by governmental funds in the past.

In addition to the fund financial information traditionally presented in the City's financial statements, under the GASB 34 financial reporting format the CAFR report also includes government-wide financial statements. The government-wide financial statements include a Statement of Net Assets that provides the total net assets of the City, including all capital assets and infrastructure; and the Statement of Activities that shows the cost of providing government services. This CAFR complies with the GASB Statement 34 requirements.

Stockton
All-America City
2004
1999

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the independent auditor's report.

INDEPENDENT AUDIT

The City Charter, Article XIX, Section 1911 requires each fiscal year that an independent audit be made of all City accounts by certified public accountants. The City of Stockton's financial statements have been audited by Macias Gini & O'Connell LLP, an independent firm of licensed certified public accountants.

The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Stockton for the fiscal year ended June 30, 2008 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

Based on the audit, the independent auditors concluded that there was reasonable basis for rendering an unqualified opinion which states that the City's financial statements for the fiscal year ended June 30, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

SINGLE AUDIT REPORT

The independent audit of the financial statements of the City is part of a broader, federally mandated "Single Audit" designed to meet the needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. Information relating to this Single Audit, including a Schedule of Expenditures of Federal Awards, the independent auditor's report on internal controls, report on compliance with applicable laws and regulations, and a schedule of findings and recommendations are included in this CAFR.

CAFR FORMAT

This Comprehensive Annual Financial Report is presented in four sections:

1. The Introductory Section, which is un-audited, includes this letter of transmittal, a listing of elected officials and the City's organization chart.
2. The Financial Section includes the independent auditor's report on the financial statements, the MD&A, the audited basic financial statements and required supplementary information.
3. The Statistical Section, which is un-audited, includes selected financial and demographic information, generally presented on a multi-year basis.
4. Single Audit Section, which is audited, is part of a broader audit, federally mandated by the U. S. Office of Management and Budget, Circular A-133 designed to meet the needs of federal grantor agencies.

PROFILE OF THE GOVERNMENT

The City of Stockton is located in the center of California's flourishing San Joaquin Valley and is the seat of San Joaquin County. Stockton is strategically located about 80 miles east of the San Francisco Bay area and 40 miles south of Sacramento, the capital of California.

The City encompasses 60 square miles and has an estimated population of approximately 290,000 making it the 13th largest city in California. Stockton is surrounded by the rich and fertile lands of the California Central Valley and is home to the largest inland seaport in California. Stockton has a highly diversified economic base as a regional center for commerce, both in agricultural and manufacturing export trade activities. Over the past decade, the City has experienced significant growth and development.

GOVERNMENT STRUCTURE AND TYPES OF SERVICES

The City was incorporated in 1850 and subsequently received its first charter, a special legislative charter, from the State in 1851. Stockton's first local Charter under the 1879 State Constitution was approved by the voters in 1888 and ratified by the State Legislature in 1889. The current Charter under which the City operates was approved by the voters in November 1922. This Charter, enacted in 1923, changed the City from a commission form of government to the current City Council – City Manager form of government. The City Charter has been amended over 100 times since it was originally approved in 1922.

Under the Council-Manager form of government, policy-making and legislative authority are entrusted to the City Council. The mayor and representatives from six districts are chosen by city-wide election for staggered four year terms, with a two term limit. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for appointing department heads, and overseeing the operation of the City. The City Manager, City Attorney, City Auditor, and City Clerk are appointed by the City Council.

The City provides a full range of municipal services. As provided by City Charter these include: public safety (police, fire, paramedics, and building), library, sanitation (solid waste disposal, wastewater, and storm water utilities), water utility, community development, parks and recreation, and general administrative services.

Certain community development activities and infrastructure construction are provided through the Stockton Redevelopment Agency, a legally separate entity. The City Council sits as the Stockton Redevelopment Agency's board, and the Agency functions as a department of the City.

This report includes the financial activity of separate legal entities whose activities the City controls. These entities include:

- Stockton Redevelopment Agency, and
- Stockton Public Financing Authority

Component unit (stand-alone) reports are available for the Stockton Redevelopment Agency.

FACTORS AFFECTING FINANCIAL CONDITION

The financial information presented in the financial statements is best understood when it is considered from the broader perspective of the environment within which the City of Stockton operates.

PAST YEAR ACCOMPLISHMENTS AND CHALLENGES

During FY 2007-08, the City focused its efforts on diminishing the impacts of an economic slowdown on City operations and budgets. City Council acted by reducing revenue estimates, reducing expenditures, delaying non-essential new programs, and instituted a hiring freeze of non-essential personnel to weather the year with a General Fund operating budget that utilized $5.9 million of available fund balances to support operational costs. These Council measures addressed the challenges of the slowing economy, while continuing the City's focus on delivering high quality services for which the City is known.

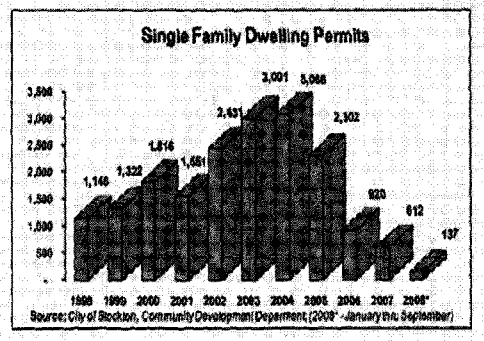
THE LOCAL ECONOMY AND CITY FINANCIAL CONDITION

The June 30, 2008 financial report indicates that the City of Stockton concluded the year having consistently provided quality services to citizens, while actively managing recent tax revenue challenges by a combination of budget reductions and use of fund reserves in order to meet its obligations. Stockton maintains adequate fund balances for emergencies in a majority of its enterprises and governmental operations funds. In June 2006 the City Council adopted a reserve policy for the General Fund with a commitment to support its target funding level over future years. The City's General Fund enters fiscal year 2008-09 with $9.6 million in available fund balances, after legally restricted reserves, or 4.7% of FY 2008-09 total budgeted appropriations.

During the early part of the decade, the City experienced significant residential growth followed by declines in recent years. Stockton, along with many cities in California, experienced an economic slowdown in the last half of FY 2007-08, which has subsequently deepened into recession. Although the City's population remained the same as the previous year, the unemployment rate rose by 1.7%.

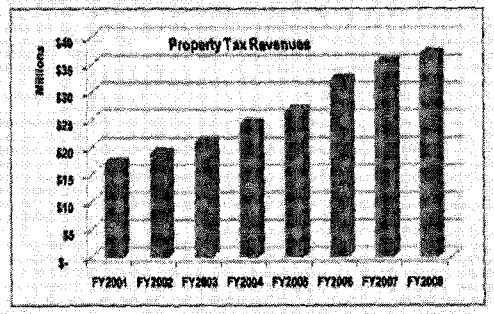
Growth in residential and commercial sectors over the past several years continues to be a driving force on City operational costs, although the pace from calendar years 2006 and 2007 was more moderate than from 2002 through 2005.

The chart illustrates, new single family residential dwelling unit permits in 2007 were down by 80% compared to the previous 2004 high. This decline continues into calendar year 2008, with single family dwelling permits January through September totaling 137 permits to-date, compared to 3,066 during 2004.



The City government operations depend primarily on tax revenues from property tax, sales and use tax, and utility user tax revenues to finance its operations.

Stockton's property tax revenues more than doubled since FY 2000-01, with an average annual increase over the eight year period of 11%. The building boom contributed to this growth rate, as well as the increases in market values for resale homes through June 2007. Property tax revenue growth increased by a moderate 4.5% in FY 2007-08 compared with the prior fiscal year increase of 9.5%. This was due to a weakening housing market that



began a precipitous decline in the last three quarters of fiscal year 2008. The housing market value declines have deepened since the close of fiscal year 2008, with estimated property tax revenues for FY 2008-09 will reflecting this loss in home market values.

Stockton's second largest tax revenue source, sales and use taxes collected by the State, declined by 1.5% in FY 2007-08 compared to the prior fiscal year. This decline was due to the economic downturn of the last three quarters of FY 2007-08 impacting consumer confidence in the economy.

Stockton's third largest tax revenue source, utility user tax, increased by $760 thousand, or 2.5%, in FY 2007-08 compared with the prior year. The City saw a $4.2 million decrease in this revenue source in FY 2006-07 due to the City Council's approval of a 2005 resolution to reduce the utility user tax rate from 8% to 6%, with the final reduction from 7% to 6% effective July 1, 2006.

FUTURE ECONOMIC OUTLOOK

This past decade of development has brought significant private investment to the City. Development growth and associated new revenue generated has resulted in the delivery of additional public services to citizens. The City expects increased expenditure levels for services to support past development initiatives.

Stockton has projected a conservative average annual population growth rate of 1.9% for FY 2008-09. Past residential growth is expected to drive additional commercial/retail development in the area.

Each year the Council reviews how planned improvements are working and determines how changes in direction or process would benefit City residents. During the FY 2008-09 budget development process, Council established the following goals:

A. Reduce crime and improve safety
B. Maintain open and thorough processes for monitoring the fiscal health of the City.
C. Articulate a vision for the ongoing revitalization of downtown, the waterfront, and continued infrastructure, economic development, and redevelopment initiatives throughout the City.
D. With regional sensitivity develop a vision for long-term growth for Stockton to provide for appropriate and viable development and economic growth.
E. Evaluate the integration of technology into operations in the delivery of services.
F. Develop a strategy to meet the diverse housing needs of the City.

Stockton Housing Market - As mentioned previously, Stockton's housing market value declines have deepened since June 30, 2008. The San Joaquin County Assessor's Office determined that the City's property assessed value for FY 2008-09 is estimated to decline by 1.3%, from $21.45 billion in FY 2007-08 to $21.18 billion in FY 2008-09. Comparatively, previous assessed valuations for the City increased by 17.7% and 8.4% in FY 2006-07 and FY 2007-08, respectively.

Due to the precipitous decline in Stockton's housing market, the County announced in April 2008 their plans of employing the provisions found in California's Government Revenue and Taxation Code 51 (amended by Proposition 8 in November 1978) to perform a devaluation of all properties that had changed ownership since January 2004. The result of this County action, estimates announced by the County in July 2008, was a devaluation of 24,447 parcels of the total 90,117 parcels in the City. The County action caused 27% of the City's total property parcels' assessed values to be brought back to January 2004 levels.

Property Tax - As a result, the City's largest tax revenue source (property tax) is projected to decline by 12.7% compared to last year, or $32.4 million. These are current revised estimates (dated 9/25/08). Coupled with declining housing market values, events in the fall of 2008 in the national financial services sector have resulted in a lack of credit availability to homeowners and the business community. These two factors will significantly restrict homeowners' ability to refinance properties in an effort to avoid increasing mortgage interest costs stemming from sub-prime mortgage lending practices.

Management projects that home foreclosures will be at unprecedented levels through June 30, 2009. Still, the above estimated decline in property tax revenue is not a result of delinquent property tax revenues tied to home foreclosures, since the City participates in San Joaquin County's Teeter Plan. California state law under the Teeter Plan provides for a guarantee by the County of property tax collections resulting from property tax delinquencies. The property tax revenue estimates are tied solely to the declining value of properties in the City and the declines in expected home sales market values lower than their respective assessed property values.

Sales Tax - Stockton's second largest tax revenue, sales and use tax distributions from the State of California, are also expected to decline in FY 2008-09. This estimate (dated 9/25/08) is projected to be $30.3 million, or a 5% decline compared to FY 2007-08. Regional economists have cited the entire State of California's economy has entered into a recession, with diminishing consumer confidence and rising fuel and food prices as leading factors to the further decline in this tax revenue source for FY 2008-09.

Case 12-32118 Filed 04/21/14 Doc 1372

CTY206511

LONG TERM FINANCIAL PLANNING

Management encourages its departments to project their resource needs for a period longer than the traditional annual budget. In February 2008, the City Council accepted a contractual agreement with the Government Finance Officers Association (GFOA) to provide consulting services to assist the City in a long-range strategic and financial plan for the City of Stockton. The strategic planning component of the effort has been undertaken by all the City's departments and City management. A report of the General Fund's five-year financial analysis component is expected in the fall of 2008.

The Stockton City Council annually adopts a five-year Capital Improvement Program (CIP). The CIP serves as a plan of the public capital projects necessary for orderly implementation of the Stockton General Plan. The 2008-13 CIP proposes a total spending plan over the next five years of $996.3 million. The five-year CIP is a planning document that does not appropriate funds for projects. The first year of the CIP is incorporated into the adopted annual budget for fiscal year 2008-09. The CIP appropriation for fiscal year 2008-09 is $303.9 million.

CASH AND INVESTMENTS

The California government code and City policy stipulate how the City's temporarily idle cash can be invested. The City adopts an investment policy annually that is intended to provide guidelines for the prudent investment of the City's balances, and outlines the policies to assist in maximizing the efficiency of the City's cash management system while meeting the daily cash flow demands of the City. The market value for the City's investments as of June 30, 2008 was $451.4 million. The average rate of return on investments not held by fiscal agents for the fiscal year ending June 30, 2008 was 4.70%.

In late 2006, with the support of the Budget, Finance and Economic Development Committee, and the City Council authorized the Financial Management Department to contract for investment portfolio management services. On July 1, 2007, the City entered into an agreement with Chandler Asset Management for management of the City's long-term investment portfolio. Both the City's long-term investment portfolio management and daily cash requirements are overseen by the Acting Director of Financial Management.

Additional information on cash management can be found in Note 1 and 2 in the notes to the financial statements.

RISK MANAGEMENT

The City is self-insured for general liability, workers' compensation, and health insurance. The City participates in two multi-agency joint powers authorities to provide excess insurance coverage, one for liability coverage and one for workers' compensation coverage. The City also has established three internal service funds to accumulate resources to cover potential uninsured losses. Additional information on the City's risk management activities can be found in Note 10 in the notes to the financial statements and in the internal service fund financial statements of this report.

Retirement and Other Post Employment Benefits. The City participates in the California Public Employees' Retirement System (CalPERS) and makes contributions for its public safety and non-safety employees to the retirement plans based on amounts determined by CalPERS actuaries. The City also pays the employees' required contributions as part of its benefit package.

In addition to providing retirement benefits through CalPERS, the City, in accordance with various Memorandums of Understanding, also provides post employment health benefits to certain retired employees. Additional information on the City's retirement plan and post employment benefits can be found in Notes 9 and 11 in the notes to the financial statements.

On April 5, 2007, the City issued taxable Pension Obligation Bonds in the amount of $125,310,000. The bonds were issued to restructure approximately 85% of the unfunded obligations of the City's pension plans and to fix the amortization of the remaining 15% on the unfunded accrued actuarial liability to a 30-year time frame. The purpose of this action was to reduce cost of funding this benefit and ensure that the unfunded liability is not pushed indefinitely into the future.

INTERNAL CONTROLS AND LIMITATIONS

The intent of the CAFR is to provide the City Council, citizens and City staff with a firm understanding of the City's financial position. Management assumes responsibility for the completeness and reliability of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed both to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements. Because the cost of internal controls should not outweigh the benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable, rather than absolute, assurance that the financial statements will be free from material misstatements. As with any system, the inherent limitations of the system make it imperative that the City rely on review and revision to programs when opportunities are presented, and diligence on the part of management and employees to preventing and correcting errors or other weaknesses when reviewed. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

INTERNAL CONTROLS

The City's framework of internal controls provides management with the reasonable assurance it needs to take meaningful responsibility for the contents of the financial statements. The City's basic system of internal controls includes the control environment, the accounting system and control procedures:

- The control environment includes a philosophy and organizational structure that allows for the fiduciary practice of oversight, control systems development, and management control of financial functions of the City.
- The accounting system includes built-in checks and balances for purchasing, contracting and contract approval, timely recording of all transactions, audit trails for all transactions, and routine reporting and reconciliation procedures across funds and accounts.
- The control procedures established by the City include the following:
  - Segregation of authorization, collection and recording /reconciliation functions across all departments and financially-related functions of the City;
  - Access controls to all systems, whether purchasing, general ledger, payroll, information technology, or others;
  - Independent checks on the system and transactions by accounts payable overseen by the Director of Financial Management.

BUDGET CONTROLS

The annual budget serves as the foundation for the City's financial planning and control. The City adopts a budget on an annual basis, and maintains a system of budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions as to the recording of revenues and the expenditure of these revenues.

In accordance with the provisions of the City Charter, the City Manager prepares and the City Council adopts a budget prior to June 30 for each subsequent fiscal year. Each department is given expenditure targets based on projected General Fund resources, and is required to develop operational plans within these targets to accomplish Council goals. The budget is prepared under the supervision of a budget officer reporting to the City Manager, and is submitted to the City Council for review 45 days prior to the beginning of each fiscal year. If the Council fails to adopt the annual budget by the beginning of the new fiscal year, the amounts proposed in the budget by the City Manager are considered appropriated until the Council adopts a budget.

Budgetary control is at the department level within each fund. Fund transfers within like categories of the same department require City Manager approval.

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended June 30, 2007. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City has received a Certificate of Achievement for the last 19 consecutive years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA again this year for the Certificate of Achievement.

ACKNOWLEDGEMENTS

The preparation of this report would not have been possible without the efficient and dedicated services of the Accounting Division, as well as other Financial Management Department staff. In addition, staff in all City departments should be recognized for their cooperative efforts in responding to the many questions and requests for detailed information that accompanies the preparation and production of the CAFR.

We also want to thank the Mayor, members of the City Council, and the Audit Committee for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

MARK MOSES
DEPUTY CITY MANAGER /
CHIEF FINANCIAL OFFICER

JANET SALVETTI
ACTING DIRECTOR OF
FINANCIAL MANAGEMENT

J. GORDON PALMER, JR.
CITY MANAGER

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Stockton
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

CITY OF STOCKTON
CITY COUNCIL

EDWARD J. CHAVEZ
MAYOR

LESLIE BARANCO MARTIN
VICE MAYOR
District 3

STEVE J. BESTOLARIDES
COUNCILMEMBER
District 1

DAN J. CHAPMAN
COUNCILMEMBER
District 2

CLEM LEE
COUNCILMEMBER
District 4

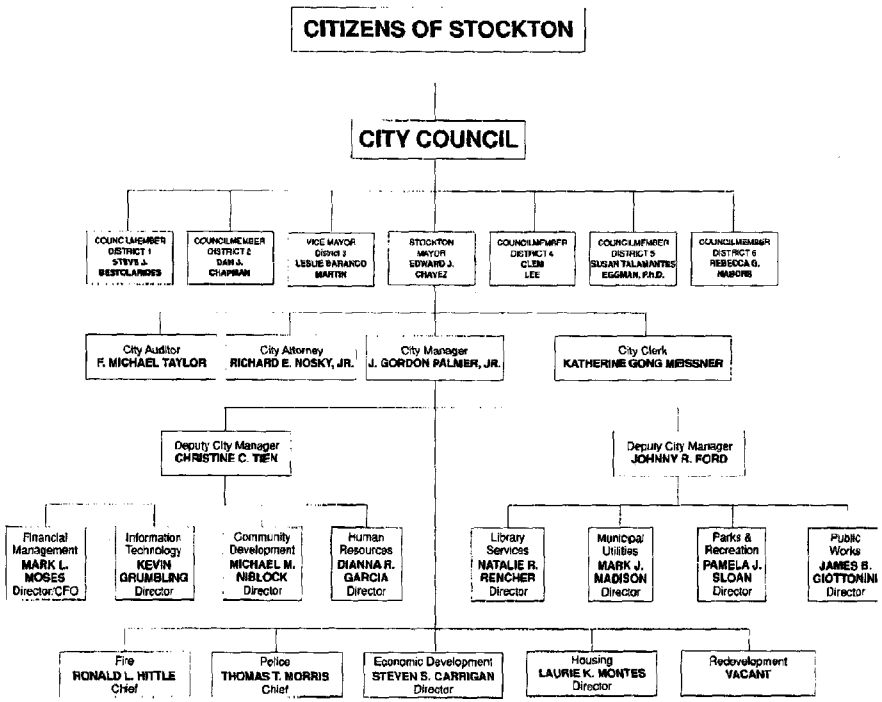
SUSAN EGGMAN, PH.D
COUNCILMEMBER
District 5

REBECCA G. NABORS
COUNCILMEMBER
District 6

The City Seal is used with permission of the City Clerk of the City of Stockton.

Stockton
All-America City
2004
1999

CITY OF STOCKTON
ORGANIZATION CHART / LIST OF PRINCIPAL OFFICIALS
AS OF JUNE 30, 2008



CITY OF STOCKTON

FINANCIAL SECTION

MACIAS GINI & O'CONNELL LLP
CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

3000 S Street, Suite 300
Sacramento, CA 95816
916.929.4600

2175 N. California Boulevard, Suite 645
Walnut Creek, CA 94596
925.274.0190

515 S. Figueroa Street, Suite 325
Los Angeles, CA 90071
213.256.6400

402 West Broadway, Suite 400
San Diego, CA 92101
619.573.1112

To the City Council
City of Stockton, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Stockton, California (the City), as of and for the fiscal year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City management. Our responsibility is to express opinions on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers of Postemployment Benefits Other Than Pensions* and Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures (an amendment of GASB Statements No. 25 and 27)* during the year ended June 30, 2008.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, schedules of defined benefit pension and OPEB plans funded status and schedule of revenues, expenditures and changes in fund balance – budget and actual – on a budgetary basis – General Fund, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Macias Gini & O'Connell LLP

Certified Public Accountants

Sacramento, California
November 10, 2008

Case 12-32118 Filed 04/21/14 Doc 1372

CTY206516

Case 12-32118 Filed 04/21/14 Doc 1372

CITY OF STOCKTON

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Stockton, we offer readers of the City of Stockton's financial statements this narrative overview and analysis of the financial performance of the City for the fiscal year ended June 30, 2008. Please consider the information presented here in conjunction with the information furnished in the Letter of Transmittal, which can be found at the beginning of the Comprehensive Annual Financial Report, and the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City of Stockton remains in a strong financial condition.
- The assets of the City of Stockton exceeded its liabilities at the close of the 2008 fiscal year by $1.2 billion (net assets). Of this amount, $993.9 million is invested in capital assets, net of related debt, $211.7 million is restricted for specific purposes (restricted net assets), and $18.1 million (unrestricted net assets) may be used to meet ongoing obligations to citizens and creditors,.
- The City's total net assets decreased by $41.6 million compared to 2007 total net assets. Governmental activities reported a decrease of $53.4 million, which was offset by an increase of $11.8 million reported in business-type activities. The key driver in this decrease was $71 million in construction costs for four highway interchange projects that were completed and transferred to the State of California Department of Transportation (Caltrans) during the year. This was offset by increases which were primarily from development related fees and contributions of capital assets from developers in both the governmental and business-type activities.
- Investment earnings totaled $20.9 million, an increase of $3.5 million from the prior fiscal year. This is made up of an increase of $3.2 million in interest income combined with a net increase of $275 thousand in the fair value of investments. Overall the increase in investment earnings reflects the fact that the City's average rate of return on its general investment pool rose from 4.30% in fiscal year 2007 to 4.70% in fiscal year 2008, as well as an increase in the average daily balance of $25 million from 2007 to 2008. The City realized improved rates of return on other investments, as well.
- The City's long-term liabilities related to governmental activities increased by $54.6 million or 14% at fiscal year end. The increase reflects the issuance of $40.8 million in Variable Rate Demand Lease Revenue Bonds and the receipt of $12.3 million in Section 108 loan proceeds from the United States Department of Housing and Urban Development.
- Long-term liabilities related to enterprise funds decreased by $2.8 million or 2%, due to principal repayments made during the year.
- The City reported $24.6 million in net other post employment benefit (OPEB) obligation for the first time this year as a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.
- The City's governmental activities reported pension assets of $126.1 million for fiscal year 2008. Proceeds of the pension obligation bonds issued in 2007 were used to prepay the City's annual required contributions to the California Public Employees' Retirement System (CalPERS). The City reported an increase of $2.4 million in this pension asset during the year due to investment earnings that exceeded the amortization of the pension asset.

CTY206517

- As of June 30, 2008, the City's governmental funds reported combined ending fund balances of $312.2 million, an increase of $8.5 million, or 3%, from 2007 total fund balances. This is made up of increases in the Public Facilities Impact Fees Fund, Capital Improvement Fund, and Other Governmental Funds offset by decreases in the General Fund and Redevelopment Agency Fund.
- Key drivers in the changes in the governmental funds combined ending fund balances include increases of $5.3 million of unspent proceeds of the Variable Rate Demand Lease Revenue Bonds reported in the Capital Improvement Fund and $12.1 million of unspent Section 108 loan proceeds reported in the Other Governmental Funds. The Redevelopment Agency Fund continued to report increases in revenue from property tax increments, although at a much slower pace than in recent years. These revenues were over-shadowed by increases in expenditures from the proceeds of the 2007 Strong Neighborhoods Initiative bond. General Fund expenditures continued to increase steadily while revenue growth was generally flat or declined slightly in the key areas of property taxes, sales and use tax (levied by the State), in-lieu of sales tax, utility users tax, business license, franchise fees, and other governmental revenues, which include Motor Vehicle License Fees (VLF) and gas tax revenues. This was offset by increases in charges for services and investment income.

Overview of the Financial Statements

This Management's Discussion and Analysis is intended as an introduction to the City of Stockton's basic financial statements. The basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. In addition to the basic financial statements, this report includes other supplementary information.

Government-wide financial statements

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances and information about the activities of the City as a whole, in a manner similar to a private-sector business.

The government-wide financial statements include 1) the statement of net assets, and 2) the statement of activities. Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public safety, public works, library, parks and recreation, and general government services. The business-type activities of the City include water utility, wastewater utility, stormwater utility, the parking district, and golf courses, as well as minor residual balances from the solid waste operation, which has been discontinued.

The government-wide financial statements include the governmental activities of the Redevelopment Agency and the Stockton Public Financing Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance structure or financial relationship to the City.

The ***statement of net assets*** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets and liabilities may serve as a useful indicator of whether the financial position of the City of Stockton is improving or deteriorating.

The ***statement of activities*** presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements can be found on pages 23-25 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives, or as required by legal enabling legislation. The City of Stockton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal reporting requirements. All of the funds of the City of Stockton can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison.

The City of Stockton maintains several individual governmental funds organized according to their type (the General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Public Facilities Impact Fees Fund, Capital Improvement Fund, and Redevelopment Agency Fund which are considered to be major funds. Data from the remaining non-major governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The basic governmental funds financial statements can be found on pages 30-39 of this report.

Proprietary funds. Proprietary funds are generally used to account for activities for which the City charges a fee to either its external or internal customers. Proprietary funds provide the same type of information as in the government-wide financial statements, only in more detail. The City maintains two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the Water Utility, Wastewater Utility, Stormwater Utility and

Case 12-32118 Filed 04/21/14 Doc 1372

CTY206518

Central Parking District, which are considered major funds. Data for the remaining non-major enterprise funds are combined into a single, aggregated presentation.

- **Internal service funds** are used to report activities that provide goods and services for certain City insurance, pension and other programs and activities. The City uses internal service funds to account for its self-insurance programs, pension obligations, fleet of vehicles, information technology systems, and radio and other equipment. Because these services predominately benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 40-47 of this report.

Fiduciary funds. The fiduciary funds are used to account for resources held for the benefit of parties outside the government. This includes resources related to land secured financing, employee payroll withholdings, area of benefit fees, public facilities fees, and other miscellaneous. The City's fiduciary funds are reported as agency funds and are not reflected in the government-wide financial statements since the resources of the funds are not available to support the City's own programs. The basic fiduciary funds financial statement can be found on page 48 of this report.

Notes to the financial statements.
The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 49-99 of this report.

Other information.
In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This information provides a budgetary comparison schedule for the City's General Fund, as well as information about the City's participation in the California Public Employees' Retirement System defined benefit pension plan and the City's defined other post employment benefits (OPEB) plan. Required supplementary information can be found on pages 101-108 of this report. The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets of the City

Net assets serve as a useful indicator of a government's financial position. In the case of the City of Stockton, assets exceeded liabilities by $1.2 billion at the close of the fiscal year, which is a $41.6 million, or 3% decrease from 2007 total net assets. Of this decrease, $53.4 million is attributable to governmental activities and is mainly due to $71 million in construction costs for four highway interchange projects that were completed and transferred to Caltrans during the year, as well as expenses that exceeded revenues. The decrease is offset by increases that are mainly attributable to contributions from developers and development related fees. The remaining $11.8 million increase is in the business-type activities and reflects contributed capital, including utility connection fee revenues and contributions of capital assets from developers.

By far the largest component of the City of Stockton's net assets is its investment in capital assets of $993.9 million or 81% (e.g., land and easements, buildings and improvements, infrastructure, and equipment), less any related outstanding debt used to acquire these assets. Capital assets contributed by developers traditionally account for significant growth in the City's net assets. The City uses these capital assets to provide services to citizens; consequently, these are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be liquidated to reduce these liabilities.

An additional portion of the City's net assets, $211.7 million or 17%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $18.1 million, 2%, may be used to meet the City's ongoing obligations to citizens and creditors.

The following table presents the government-wide assets, liabilities, and net assets for both 2008 and 2007. The governmental activities columns reflect amounts that have been restated in this financial report. The restatement will be discussed in more detail in subsequent sections of this management report.

City of Stockton's Net Assets
(dollar amounts in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets:						
Current and other assets	$537,925	$515,889	$110,366	$125,672	$648,291	$641,561
Capital assets	714,775	708,774	540,426	521,446	1,255,201	1,230,220
Total assets	1,252,700	1,224,663	650,792	647,118	1,903,492	1,871,781
Liabilities:						
Long-term liabilities	448,727	394,175	163,761	166,518	612,488	560,693
Net OPEB obligation	24,608	-	-	-	24,608	-
Other liabilities	34,260	31,993	8,512	13,907	42,772	45,900
Total liabilities	507,595	426,168	172,273	180,425	679,868	606,593
Net assets:						
Invested in capital assets, net of related debt	594,070	634,091	399,813	389,945	993,883	1,024,036
Restricted	172,088	161,995	39,568	46,850	211,656	208,845
Unrestricted	(21,053)	2,409	39,138	29,898	18,085	32,307
Total net assets	$745,105	$798,495	$478,519	$466,693	$1,223,624	$1,265,188

Governmental activities. Total assets for governmental activities increased by $28.0 million, with current and other assets in governmental activities increasing by $22.0 million and capital assets growth of $6.0 million. Total liabilities increased by $81.4 million, with other liabilities increasing by $2.2 million, long-term liabilities increasing by $54.6 million, and the addition of $24.6 million in net OPEB obligation. The increase in long-term liabilities reflects balances related to the Variable Rate Demand Lease Revenue Bonds and the Section 108 loan, as mentioned earlier in this document.

Case 12-32118 Filed 04/21/14 Doc 1372

CTY206519

Case 12-32118 Filed 04/21/14 Doc 1372

Of the $53.4 million decrease in governmental activities total net assets, capital assets, net of related debt, decreased by $40 million, restricted net assets increased by $10.1 million, and unrestricted net assets in governmental activities decreased by $23.5 million during the year, resulting in a deficit unrestricted net assets of $21.1 million. The most significant factor in this deficit was a $27.0 million reduction in net assets in the Health Benefits Insurance Fund, which included $24.6 million of net OPEB obligation, which was reported by the City for the first time in fiscal year 2008. The decrease of $5.9 million in General Fund fund balance also contributed to the deficit in unrestricted net assets. These $32.9 million in reductions to unrestricted net assets were offset by increases of $4.8 million in the Retirement Benefits Fund, $1.9 million in the Workers' Compensation Insurance Fund, $1.2 million in the General Liability Insurance Fund, and reported increases of $3.0 million in the unrestricted portion of the Capital Improvement Fund at fiscal year end.

As referenced earlier, below is a summary of the governmental activities net asset restatement for fiscal year 2008:

- A prior period adjustment decreased capital assets by $35.6 million. This restatement includes non-capital street repair and overlay projects that were reported as construction in progress in the previous fiscal year.
- A prior period adjustment of $10.5 million reported in the Other Governmental Community Development Block Grant (CDBG) Fund is related to grant revenues that were overstated in fiscal year 2007.
- A prior period adjustment of $7.5 million in the Other Governmental Home Program Fund to correct loan balances that were understated in fiscal year 2007.
- A prior period adjustment of $8.1 million to report the offsetting balances of a prior year advance from the General Fund to the Other Governmental Development Services Fund, for a restatement with zero net effect on net assets.
- A prior period adjustment of $4.9 million to recognize the portion of the City's liability for compensated absences provided for in the Other Insurance Internal Service Fund. This was offset by a corresponding reduction on the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets with a zero net effect on net assets.
- The net effect of the above restatements decreased beginning net assets in governmental activities by $38.5 million.

Business-type activities. Total assets for business-type activities increased by $3.7 million, with current and other assets in governmental activities decreasing by $15.3 million offset by capital asset growth of $19.0 million. Total liabilities decreased by $8.2 million, with other liabilities decreasing by $5.4 million and long-term liabilities decreasing by $2.8 million. Total net assets for business-type activities increased by $11.8 million. Capital assets, net of related debt, increased by $9.9 million offset by a decline in restricted net assets of $7.3 million. Business-type activities unrestricted net assets increased by $9.2 million. This includes increases of $2.4 million in the Water Utility, $4.7 million in the Wastewater Utility, $1.2 million in the Stormwater Utility, $923 thousand in the Central Parking District, and $55 thousand in Other Enterprise Funds.

Change in Net Assets of the City

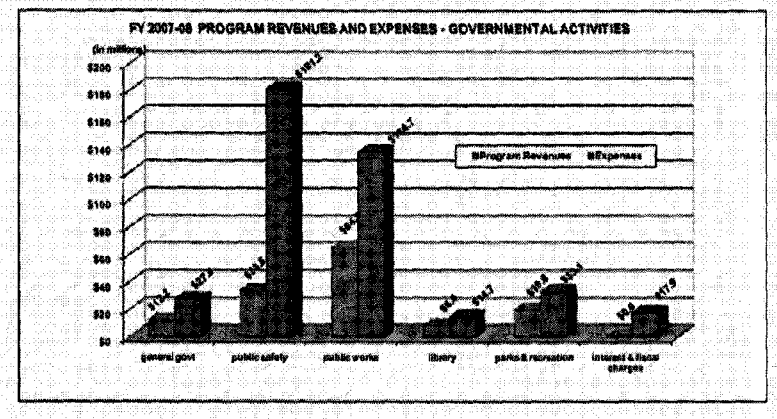
The City of Stockton's total program expenses of $485.4 million exceeded revenues of $443.8 million for a decrease in net assets of $41.6 million.

City of Stockton's Change in Net Assets
(dollar amounts in thousands)

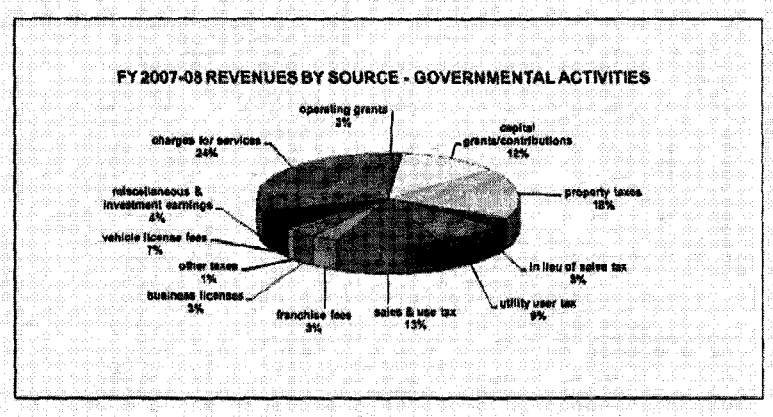
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for service	$84,511	$81,307	$68,583	$66,741	$153,094	$148,048
Operating grants and Contributions	10,352	11,065	-	-	10,352	11,065
Capital grants and contributions	43,874	75,009	13,251	23,721	57,125	98,730
General revenues:						
Property taxes	63,998	60,015	-	-	63,998	60,015
In lieu of sales tax	10,164	11,070	-	-	10,164	11,070
Utility user taxes	30,861	30,101	-	-	30,861	30,101
Sales and use taxes (levied by City)	9,409	9,249	-	-	9,409	9,249
Franchise fees	11,537	10,817	-	-	11,537	10,817
Business licenses	10,772	10,285	-	-	10,772	10,285
Hotel/motel room taxes	2,287	2,180	-	-	2,287	2,180
Document transfer taxes	686	1,187	-	-	686	1,187
Other taxes	246	257	1,055	981	1,301	1,238
Vehicle License Fees	24,051	22,661	-	-	24,051	22,661
Sales and use tax levied by state)	36,098	36,745	-	-	36,098	36,745
Other shared revenue	389	384	-	-	389	384
Investment earnings	15,007	11,436	5,892	5,973	20,899	17,409
Miscellaneous	756	786	-	-	756	786
Gain on sale of capital assets	88				88	
Total revenues	355,086	374,554	88,781	97,416	443,867	471,970
Expenses						
General government	27,819	26,517	-	-	27,819	26,517
Public safety	181,187	161,895	-	-	181,187	161,895
Public works	134,737	59,897	-	-	134,737	59,897
Library	14,723	13,261	-	-	14,723	13,261
Parks and recreation	33,138	27,429	-	-	33,138	27,429
Interest and fiscal charges	17,921	11,746	-	-	17,921	11,746
Water utility		-	22,070	21,750	22,070	21,750
Wastewater utility		-	40,045	42,084	40,045	42,084
Stormwater utility		-	6,696	7,219	6,696	7,219
Central parking district		-	5,002	4,238	5,002	4,238
Other		-	2,093	2,057	2,093	2,057
Total expenses	409,525	300,745	75,906	77,348	485,431	378,093
Increase/decrease in net assets before transfers	(54,439)	73,809	12,875	20,068	(41,564)	93,877
Transfers	1,049	516	(1,049)	(516)	-	-
Increase/decrease in net Assets	(53,390)	74,325	11,826	19,552	(41,564)	93,877
Net assets, beginning of year, as restated	798,495	724,170	466,693	447,141	1,265,188	1,171,311
Net assets, end of year	$745,105	$798,495	$478,519	$466,693	$1,223,624	$1,265,188

CTY206520

Governmental activities. Governmental activities decreased the City's net assets by $53.4 million during the year. In the table below, the difference between the program revenue and expense bars by activity illustrates the amount each respective activity is supported by program revenues. Public safety and public works service delivery costs exceeded program revenues by $147.7 million and $69.9 million, respectively.



Revenues and expenses in the governmental activities have grown as the population of Stockton has grown. The charges for services category is the largest revenue source for governmental activities comprising 24% of total revenues. Property tax and sales & use tax are also significant revenue sources for the City's governmental activities.



Capital grants and contributions accounted for a significant amount of the increase in the City's net assets in governmental activities, and 12% of the City's total governmental activities revenues. This includes:

- $5.1 million in contributions of capital assets from developers.
- $3.2 million in Measure K funding for the Hammer Lane Widening Phase III project.
- $9.5 million in State grant revenues, including $2.5 million from the Urban Park Act of 2001 Program for Panella Park Community Center, $2.2 million from the 2002 Program Resources Bond Act for Stribley Community Center, and $1.9 million from the Department of Boating and Waterways for Morelli Park. In addition, $2.6 million from the Urban Park Act of 2001 Program constructed a detention basin soccer complex owned and maintained by the San Joaquin Area Flood Control Agency.
- $3.4 million in federal grants and $7.3 million in Measure K funds from the State of California, reported as capital grants and contributions, were expended on the Hammer Lane/Highway 99 Interchange project to construct assets that were completed and transferred to the State during the year.

Charges for services includes $24.3 million in public facilities fees paid in connection with new development which also contributed to an increase in net assets in governmental activities. Although the City continues to experience a decline in construction activity, revenue from public facilities fees was up due to a significant rate increase in the street improvement and traffic signal fees which were effective July 23, 2007. Additionally, commercial development remained strong through the fiscal year.

Revenue increases were moderate compared with recent years due to the downturn in the housing market and general economy during the last half of fiscal year 2008. The City's governmental activities realized increases in the following revenues:

- Property taxes increased $4.0 million or 7%. This reflects a modest increase of $1.6 million, 4%, in the General Fund and continued growth of $2.4 million, 10%, in redevelopment tax increments from commercial growth in the South Stockton Redevelopment Project area and some continuing residential growth in the North Stockton Redevelopment Project area. Growth in property taxes declined significantly from 2007 in which the City experienced property tax increases of 10% in the General Fund and 63% in the Redevelopment Agency Fund. This is a direct result of declining home values and the explosion of home foreclosures related to subprime mortgage lending practices.
- Vehicle license fees increased $1.4 million or 6%, a significant drop from the 25% growth experienced in fiscal year 2007.
- Charges for services increased $3.2 million, or 4%, primarily due to strong public facilities fees revenues, as discussed above.
- Utility user tax increased $760 thousand, or 3%, due to utility rate increases and growth in cell phone usage.
- Business license taxes increased by $487 thousand, or 5%, due to increased enforcement efforts.

Decreases in governmental activities revenues occurred as follows:

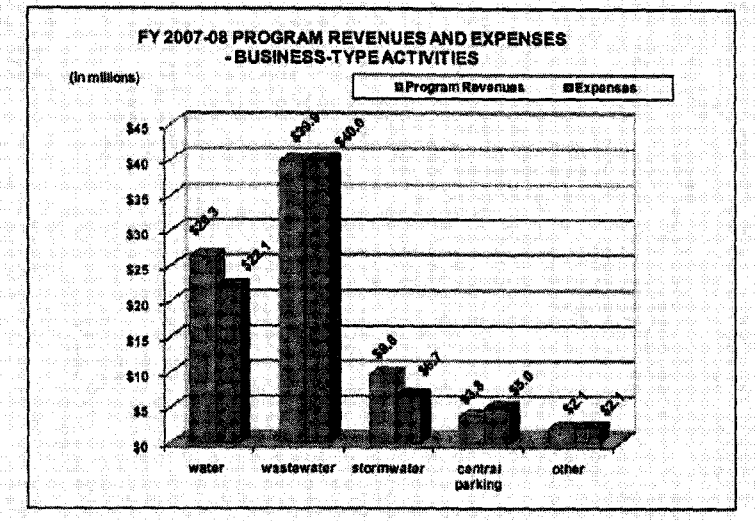
- There were decreases of $647 thousand in shared revenue (sales and use tax levied by the State) and $906 thousand in property tax in lieu of sales tax, which replaced a quarter of the City's 1% sales tax that was transferred to the State beginning in fiscal year 2005 as part of the revenue shift approved by constitutional amendment and referred to as the "triple flip". These decreases reflect the downturn in the economy at the local, state and federal levels.

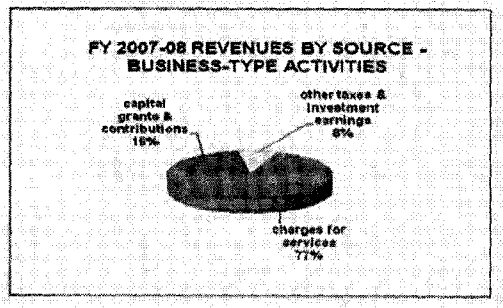
Investment earnings in governmental activities totaled $15.0 million, an increase of $3.6 million or 31.2% from fiscal year 2007. Interest income of $13.4 million in governmental activities includes $4.5 million in interest earned on bond proceeds from the SNI Bonds issued in July 2006. Governmental activities also realized a $1.6 million net increase in the fair value of investments. The increase in investment earnings reflects the growth in both the average rate of return on the City's general investment pool and the average daily balance, in addition to improved rates of returns on other investments.

Key increases in governmental expenses occurred as follows:

- Public safety increased $19.3 million, primarily due to costs associated with hiring additional police and fire personnel in the Measure W Public Safety Tax Fund and cost of living increases.
- Public Works increased $74.8 million, primarily due to the $71 million for four highway interchange projects that were completed and transferred to Caltrans during the year in addition to non-capital costs related to other street improvement and maintenance projects.

Business-type activities. Business-type activities accounted for an $11.8 million increase in the City's net assets. The bar chart below illustrates how total program revenues and expenses compare. It illustrates that program revenues exceeded program expenses for two of the three of the utilities, with water by $4.3 million and stormwater by $3.1 million. Program revenue and expenses for the wastewater utility nearly broke even, with expenses exceeding revenues by $172 thousand. Wastewater will be conducting a fee study review in the future fiscal year to address revenue generation concerns.





The pie chart shows the distribution of business-type revenues by category. All the City's business-type activities rely heavily on charges for services to fund their operations, making up 77% of total business-type revenues. Capital grants and contributions is the second largest revenue source comprising of 15%, followed by other taxes and investment earnings at 8% of the total business-type activities' revenues.

The key elements of this increase in business-type activities total net assets are

- Contributions of capital assets from developers:
  Water Utility: $2.0 million, a decrease of $2.9 million, or 59%, from 2007
  Wastewater Utility: $2.8 million, a decrease of $3.0 million, or 52%, from 2007
  Stormwater Utility: $3.6 million, a decrease of $2.6 million, or 42%, from 2007
- Connection fees:
  Water Utility: $1.4 million, a decrease of $300 thousand, or 18%, from 2007
  Wastewater Utility: $3.4 million, a decrease of $1.7 million, or 34%, from 2007

The above decreases clearly reflect the decline in construction, which is directly related to the downturn in the local housing market.

Investment earnings in business-type activities totaled $5.9 million, a decrease of $61 thousand or 1% from fiscal year 2007 primarily due to reimbursements from fiscal agents for construction costs in the Wastewater and Central Parking District funds.

The City operates three enterprise funds that offer water, wastewater and stormwater services to Stockton residents. The water utility treats and distributes clean drinking water and performs repair and maintenance functions of existing wells, reservoirs, and water lines, as well as builds additional water system capital improvements through its capital improvement master plan. The wastewater utility fund collects, treats, and disposes of wastewater and the stormwater utility fund collects drainage and disposes of stormwater runoff. The wastewater and stormwater funds also perform repair and maintenance functions of existing wastewater and stormwater mains, pump stations, and treatment facilities, as well as builds additional system capital improvements.

Financial Analysis of the City's Funds

As noted earlier, the City of Stockton uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. This financial analysis of the City's funds provides an overview of their financial performance.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital projects funds, and the Permanent Fund.

As of June 30, 2008 the City's governmental funds reported combined ending fund balances of $312.2 million, an increase of $8.5 million from 2007 total fund balances.

Revenues for governmental funds overall totaled $352.3 million in fiscal year 2008, which represents a decrease of $7.9 million from fiscal year 2007. The revenue decline of 2% in the governmental fund revenues is a net of declines and increases amongst the various revenue categories. The most significant decrease in revenues compared to the prior year was seen in the $12.9 million decrease in federal grants and subsidies. This revenue source varies widely depending on City programmatic initiatives undertaken and the availability of federal grant funding. Additional revenue reductions are seen in the other governmental revenue and refunds and reimbursements categories, decreasing by $3.1 million and $3.9 million, respectively. License and permits also saw a significant decrease of $1.5 million, or a 22% decline. These revenue declines were offset by increases in property tax of $4.0 million, charges for services of $3.5 million, use of money and property of $3.2 million, investment income of $3.0 million, utility user tax of $760 thousand, franchise tax of $720 thousand, and business license taxes of $487 thousand.

Expenditures for governmental funds totaled $397.4 million, an increase of $46.6 million from the prior fiscal year. During fiscal year ended June 30, 2008 expenditures for governmental funds exceeded revenues by $45.1 million or 13%. The governmental funds reported substantial expenditures from the Public Facilities Fees Fund, the Capital Improvement Fund and the Redevelopment Agency Fund for various capital improvement projects totaling $112.3 million, as described below, for an increase of $58.7 million over fiscal year 2007. Public safety showed increases of $4.9 million, or a 3% increase. Debt interest costs increased by $2.9 million.

Other financing sources exceeded other financing uses by $53.6 million, which reflects bond proceeds of $40.8 million from the Variable Rate Demand Lease Revenue Bonds and $12.3 million in Section 108 loan proceeds.

General Fund. The General Fund is the chief operating fund of the City. At the end of the fiscal year, the General Fund's unreserved fund balance was $9.6 million and has been designated as follows: $1.6 million for catastrophic events, $1.6 million for budget contingency/budget uncertainty, $1.6 million for compensated absences, and $4.8 million for future appropriations. As a measure of the General Fund's liquidity, it is useful to compare the following designated unreserved fund balances to the General Fund's total expenditures of $182.0 million: designated for catastrophic events, 0.9%, designated for budget contingency/budget uncertainty, 0.9%, designated for compensated absences, 0.9%, and designated for future appropriations, 2.6%. The total fund balance for the General Fund is $23.1 million, which includes the designated unreserved fund balances of $9.6 million, as mentioned above, and reserved fund balance in the amount of $13.5 million. General Fund revenues exceeded expenditures by $5.3 million, mostly due to mid-year expenditure reductions, which resulted in a $3.9 million savings; however, other financing uses exceeded other financing sources by $11.2 million, which reflects on-going operating transfers of $6.7

million to the Library Fund and $7.1 million to the Recreation Services Fund. The net result was to decrease fund balance by $5.9 million.

Public Facilities Impact Fees Fund. The Public Facilities Impact Fees Fund accounts for the collection and expenditure of fees imposed as a condition of new development within the City. At the end of the fiscal year, the Public Facilities Impact Fees Fund's total fund balance of $60.5 million was reported as reserved. This represents an increase of $1.5 million from the prior fiscal year. Revenues, which consist mainly of development related fees, were $1.6 million more than expenditures. Capital outlay expenditures totaling $26.0 million funded the construction of a several parks, street widening projects, and traffic related projects.

Capital Improvement Fund. The Capital Improvement Fund accounts for the acquisition, construction, and improvement of capital facilities financed by grants and transfers from other City funds. The Capital Improvement Fund reported a reserved fund balance of $22.0 million and an unreserved fund balance of $11.0 million at fiscal year end. Expenditures exceeded revenues by $34.6 million; however, other financing sources exceeded other financing uses by $43.9 million, resulting in a net increase in fund balance of $9.3 million. Capital outlay expenditures totaling $46.2 million funded the acquisition of an office building and parking garage, final construction of two community centers and completion of recreational facility renovations.

Redevelopment Fund. The Redevelopment Agency Fund reported total fund balance of $45.6 million at the end of the fiscal year. This reflects a reserved fund balance of $81.9 million and a deficit unreserved fund balance of $36.3 million. In addition to $14.8 million, which is reserved for encumbrances, the Redevelopment Agency also reported $58.8 million, which is reserved for capital projects. For the most part the positive fund balance is essentially due to bond proceeds received in the prior fiscal year. Expenditures of $39.2 million are attributable to the several construction and street improvement infrastructure projects including the Airport Way Neighborhood Services Center and start up costs for the Panella and Stribley Park Community Center renovations. This was offset by an increase of $2.4 million or 10% in incremental property tax revenues, due to commercial growth in the South Stockton Redevelopment Project area and slight residential growth in the North Stockton Redevelopment Project area.

Governmental funds restatement

The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances have been restated to report the effect of prior period adjustments as described below. The 2007 comparative data amounts have also been restated in these reports to conform to the 2008 financial presentation. The 2008 governmental funds restatement includes:

- A prior period adjustment of $10.5 million reported in the Other Governmental Community Development Block Grant (CDBG) Fund was related to grant revenues that were overstated in fiscal year 2007. Operating transfers in the CDBG Fund were incorrectly included as disbursements for new loans during the evaluation of 2007 year end revenue accruals. During fiscal year 2008, it was determined that the transfers were related to a change in the accounting structure for CDBG funds that was implemented during fiscal year 2007 and did not represent expenditures that were eligible for grant reimbursement. This resulted in a $10.5 million reduction in beginning fund balance in the Other Governmental CDBG Fund.
- A prior period adjustment of $7.5 million reported in the Other Governmental Home Program Fund is related to advances to property owners that were understated in fiscal year 2007.

This resulted in a $7.5 million increase in beginning fund balance in the Other Governmental Home Program Fund.

- Prior period adjustments of $8.1 million establish the remaining balances as of June 30, 2008 of a prior year advance from the General Fund to the Other Governmental Development Services Fund. This represents the balance of a $39.8 million General Fund advance to the Other Governmental Development Services Fund. The advance consists of a General Fund subsidy of development services activity from fiscal year 1993 through fiscal year 2002, which is documented in Section 7 of the Stockton Events Center Report presented at the City Council Study Session of December 17, 2003. In fiscal year 2003, Development Services was removed from the General Fund and established as a special revenue fund. Since that time the City's Annual Budget has authorized operating transfers from the Development Services Fund to the General Fund to repay this obligation. These prior period adjustments establish the remaining balance of $8.1 million as a General Fund advance to other funds and a Development Services advance from other funds. These offsetting adjustments resulted in no effect on total beginning fund balances.
- The net effect of the above restatements was to decrease total beginning fund balances by $3 million on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances.

Proprietary Funds

The City of Stockton's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Each funds' financial transactions, both near-term and historic, are provided in the statement of net assets and the statement of revenues, expenses and changes in fund net assets.

At the end of the fiscal year, unrestricted net assets were reported as follows: the Water Utility, $21.9 million, the Wastewater Utility, $14.5 million, and the Stormwater Utility, $3.7 million. The Central Parking District reported deficit unrestricted net assets of $276 thousand. The Solid Waste and Golf Courses are combined for financial reporting purposes and together had deficit unrestricted net assets of $720 thousand. The internal service funds had deficit unrestricted net assets of $20.7 million.

The total growth in net assets for the enterprise funds was $11.8 million. In fiscal year 2008, the Wastewater and Stormwater utility funds experienced an operating deficit, where operating expenses exceeded operating income by $1.23 million and $503 thousand, respectively. Operating deficits signal that an enterprise's operating income structure is not meeting standard operating and infrastructure renewal and replacement costs. This is the second consecutively year in which the Wastewater Fund has ended the fiscal year with an operating deficit, and the eighth consecutive year for the Stormwater Fund.

The operating loss decreased in the Wastewater fund by $2.5 million primarily due to settlement agreements reached last year that resulted in lower current year legal expenses. Although the Wastewater fund had a decrease of $6.2 million in expenses related to the OMI Thames service contract termination during the year, an equal amount was offset in increased salary expenses for employees transitioning back to the City. The operating loss in the Stormwater fund decreased by $1.6 million primarily due to additional one-time revenues received for environmental cleanup and damage settlements.

The Water fund operating income decreased $570 thousand primarily due to additional indirect cost allocation charges and a slight decrease in charges for services revenue.

The Central Parking District operating revenues exceeded operating expenses by $458 thousand as a result of a 5% fee increase in parking fees and additional revenues for monthly parking customers due to the closure of one lot in the downtown area that displaced customers to higher cost parking garages. Expenses increased primarily due to additional indirect cost allocation charges and part time salary costs due to unionization and salary increases retroactive to July 2008.

Capital assets net of depreciation increased in the Water fund by $6.4 million, which includes $3.2 million for the Delta Water Supply Project. This project is in the design phase and will provide a new supplemental water supply for the Stockton Metropolitan Area. The Wastewater Fund capital assets net of depreciation increased by $10.8 million, which includes $15.6 million for the continued expansion of the Regional Wastewater Control Facility and the Westside Sewer Interceptor projects, offset by $9.1 million in additional accumulated depreciation.

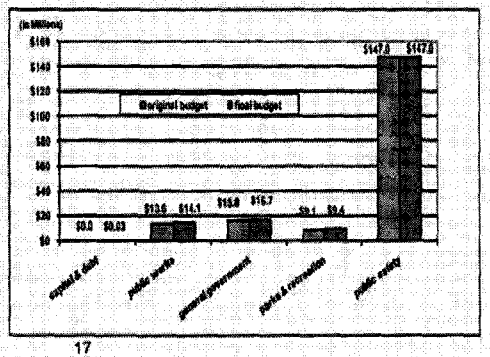
The internal service funds reported a decrease in net assets of $18.0 million. The key driver in this is the decrease in net assets of $27.0 million in the Health Benefits Insurance Fund, primarily due to reporting $24.6 million in net OPEB obligation for the first time in fiscal year 2008. Additional factors are the decreases in net assets of $1.6 million in the Other Equipment Fund and $104 thousand in the Other Insurance Fund, offset by increases in net assets of $4.8 million in the Retirement Benefits Fund, $2.1 million in the Computer Equipment Fund, $1.9 million in the Workers' Compensation Insurance Fund, and $1.2 million in the General Liability Insurance Fund.

General Fund Budgetary Highlights

During the 2008 fiscal year, the General Fund's original budgeted expenditures, of $185.5 million, excluding transfers, increased by 1 percent to a final amended budget of $187.2 million. Original adopted revenue estimates were increased from $192.98 million to the final budgeted revenue estimates of $193.0 million.

On a budgetary basis, actual expenditures, excluding transfers, came in $3.8 million below the final budget, or at $183.4 million or 2.1 % below the final budgeted expenditures. General governmental operating expenditure reductions and salary savings across General Fund departments contributed to this reduced spending level. Actual revenues, excluding transfers, in the General Fund were $5.7 million lower than the final budget revenue estimate, at $187.3 million or 3% below the final budgeted revenue estimate. Actual transfers and other financing sources (uses) were $338 thousand higher than the final budgeted figure of $10.8 million.

The final budget estimated a reduction in fund balance of $4.95 million. As a result of reduced revenues and increased financing uses, the General Fund realized an actual reduction in the fund balance of $5.87 million, or $914 thousand more than the final budget.

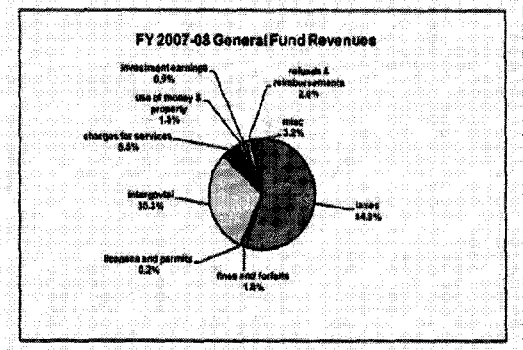


No formal City budget revision was conducted during the fiscal year. Budget revisions are done on an ad hoc basis through individual departmental requests to the City Council.

The table on the previous page illustrates the differences by governmental function category of the original adopted budget to the final revised budget. The graph also demonstrates the significant investment of General Fund revenue sources dedicated to public safety (police and fire) services, 79% of total final budgeted expenditures, excluding transfers. This level of investment is followed by general government administrative functions and public works, with 9% and 8% respectively.

Differences between the original budget and the final amended budget reflect an increase in expenditure appropriations of $1.67 million. Brief summarizations of this year's General Fund budgeted expenditure changes by functions are as follows.

- General government increased $844 thousand, reflecting increases of $312 thousand for a mid-year appropriation for establishment of the Downtown Stockton Management District and $532 thousand for prior year re-appropriated encumbrances.
- Public safety decreased by $9 thousand as a result of a $170 thousand reduction for the fire department primarily due to a $195 thousand appropriation transfer to the public works function, offset by a $181 thousand increase for prior year re-appropriated encumbrances in the fire and police departments.
- Public works increased $465 thousand which includes the budget transfer of $195 thousand from the fire department to cover salary cost over runs, as stated above, and an increase of $270 thousand for prior year re-appropriated encumbrances.
- Parks and recreation increased $338 thousand, reflecting increases of $250 thousand for a one time increase for the Parks Tree Trimming Division and $88 thousand for prior year re-appropriated encumbrances.
- $30 thousand in debt service is the cost of issuance associated with the 2008 Tax and Revenue Anticipation Note (TRAN) short term investment purchase in July 2007.
- The increase of $109 thousand in other financing sources (uses) reflects a net increase in transfers in of $429 thousand, a $344 thousand decrease in transfers out, and an increase of $24 thousand for the discount associated with the 2008 TRAN. The transfers in increased for an additional appropriation of $771 thousand for debt service, offset by a budget reduction of $1.2 million for lack of resources for a loan repayment. In addition, the transfers out decreased as a result of a $2.33 million mid year appropriation reduction due to lack of available funding offset by increases of $998 thousand for the purchase of vehicles, $774 thousand for debt service and $213 thousand in matching funds required for special purpose grants.



Nearly 55% of all fiscal year 2008 General Fund revenues are taxes collected to support governmental services that cannot be provided in the private sector with a substantial subsidy, such as police and fire services. Intergovernmental revenues from the State of California and other governmental entities made up 30% of total revenues. Charges for services accounted for 5.5% of total General Fund revenues and these revenues are collected in exchange for

specific services provided by the City. Collection of these revenues assist in defraying the costs of services, but are generally not meant to be collected on a full cost recovery basis. The remaining revenue categories comprise in total to less than 10% of the total, such as fines, licenses, permits, sale of assets, refunds, reimbursements, and investment earnings.

During the year, actual revenue collections were $5.7 million below budgetary estimates. Some key revenues that fell short of budgetary estimates are as follows:

- A shortfall of $383 thousand in property taxes, reflecting decreases in market values of homes in the last half of the year as the housing bubble had reached its limit.
- A shortfall of $3.4 million in sales and use tax as the economy began to decline in the last half of the year to declining consumer confidence resulting from the slowing economy.
- Utility users tax collections fell short of budgetary estimates by $1.6 million, also reflecting the downturn in the economy.
- Business license fees and document transfer fee were $866 thousand and $852 thousand, respectively, below the budgeted estimate due to the faltering economies impact of City commercial activity.

These shortfalls in major revenue categories were partially offset by additional revenues, such as:

- $928 thousand in interest income due to improved rate of return on pooled investments.
- $602 thousand in additional revenues from charges for services attributable to increases in Police Department initiated fees for false alarms and impound fees and Fire Department fees and contracts.
- Increased franchise fee collection of $325 thousand over the budgeted estimate is a direct result of a rate increase and collection efforts
- $381 thousand in refunds and reimbursements, primarily due to increased reimbursements for workers compensation claims.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2008 amounts to $1.2 billion. This investment in capital assets includes land and easements, buildings and improvements, machinery and equipment, park facilities, roads, street, and bridges. The total increase in the City's capital assets for the fiscal year was $24.9 million or 2%. This represented a 1% increase for governmental activities and a 4% increase for business-type activities, as shown in the table below. The largest single addition to governmental activities was for the $33.8 million purchase of an office building and parking garage. Construction in progress in governmental activities also reflects a decrease of $71 million for the transfer to Caltrans for construction costs associated with four highway interchange projects that were completed during the year.

Changes in Capital Assets, Net of Depreciation
(dollar amounts in thousands)

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	$ 37,195	$ 35,014	$ 15,165	$ 14,635	$ 52,360	$ 49,649
Buildings & Improvements	238,347	200,071	418,821	422,350	657,168	622,421
Machinery & Equipment	14,584	14,527	2,629	2,797	17,213	17,324
Infrastructure	328,257	327,483	-	-	328,257	327,483
Construction in Progress	96,392	131,679	103,811	81,664	200,203	213,343
Total	$ 714,775	$708,774	$ 540,426	$ 521,446	$1,255,201	$1,230,220

Additional information on the City's capital assets can be found in Note 5 on pages 66-67 of this report.

Long-term debt

At the end of the fiscal year, the City's total outstanding bonded debt was $515.0 million. Of this amount, $352.4 million was related to governmental activities, including $12.8 million of lease revenue bonds for the City's Essential Services Building/Parking Structure, $40.7 million of Series A (tax exempt) and B (taxable) Variable Rate Demand Lease Revenue Bonds, $13.2 million of certificates of participation for redevelopment housing projects, and $125.1 million of pension obligation bonds. Bonded debt of the Redevelopment Agency is also reported in governmental activities, including $48.2 million of revenue bonds for the Stockton Events Center-Arena Project and $112.4 million of revenue bonds for various redevelopment and housing projects referred to as the Strong Neighborhoods Initiative (SNI). During fiscal year 2008, the City's net bonded indebtedness related to governmental activities increased by $39.9 million. Key factors in the increase were the issuance of the 2007 Series A (tax-exempt) and Series B (taxable) Variable Rate Demand Lease Revenue Bonds in amounts of $36.5 million and $4.3 million, respectively, to finance the acquisition of an office building and parking garage in downtown Stockton.

Bonded debt related to business-type activities totaled $162.6 million. Of this amount $35.7 million is revenue bonds backed by the Water Utility, $94.4 million is certificates of participation backed by the Wastewater Utility, and $32.5 million is lease revenue bonds backed by the Central Parking District. During fiscal year 2008, the City's net bonded indebtedness related to business-type activities decreased by $2.8 million due to principal repayments and amortization of deferred charges.

Additional information on the City's long-term debt can be found in Note 6 on pages 68-81 of this report.

Economic Factors and Next Year's Budgets and Rates

- The City's largest General Fund tax revenue sources are property tax; sales and use tax; utility user tax (UUT); and the motor vehicle license fee (VLF). With the exception of UUT, the proportion the City receives from each source is determined by the State.

- The City's largest tax revenue source (property tax) is projected for fiscal year 2009 to decline by 12.7% compared to fiscal year 2008 or $32.4 million. These are revised revenue estimates (dated 9/25/08). Housing market values have significantly fallen in the twelve months since June 2007. Coupled with these declining housing values, events on Wall Street in the late summer of 2008 regarding the financial services sector have resulted in a lack of credit availability to homeowners and the business community. These two factors will significantly restrict homeowners' ability to refinance properties in an effort to avoid increasing mortgage interest costs stemming from sub-prime mortgage lending practices. Both the decline in home market values and foreclosure levels are not expected to wane till after June 2009.

- Sales and use tax (levied by the State) is the second largest tax revenue in the General Fund. The City receives its one percent share from two sources. The State remits three-quarters of one percent, and the remaining one-quarter of one percent comes from property tax in lieu of sales tax. Economic development efforts, as well as a healthy diversity in the types of businesses located within Stockton, have resulted in a steady stream of revenue from this source. The downturn in the economy beginning in the 2nd quarter of fiscal year 2008 resulted in a 1.5% decline in this revenue sources, with an additional expected decline of 5% next year.

- The final reduction of the Utility User's Tax (UUT) to 6% occurred in fiscal year 2007. UUT revenues are expected to remain steady next year with a 1.5% increase, compared to the 2.5% increase between fiscal year 2007 and fiscal year 2008.

- Through the agreements reached with the passage of Proposition 1A, fiscal year 2007 was the second and final year that the City was required to make a contribution of $2.7 million to the State of California from its Motor Vehicle License Fee proceeds, and the higher total VLF revenue in fiscal year 2008 reflects that adjustment. Unfortunately, the anticipated growth resulting from this change is not expected to continue in fiscal year 2009 as a result of the decline in housing market values. A decline is projected for this revenue source between fiscal years 2008 and 2009 of approximately 1.9 % (dated 9/25/08).

- Measure W is a voter approved local sales tax of one-quarter of one percent that continues to provide funds exclusively to address Stockton's public safety staffing and equipment needs, with the ultimate objective of funding 40 additional police officers and 28 additional sworn fire fighters. The 2009 fiscal year budget includes a full year of funding at $10.6 million. This sales tax revenue source is also expected to decline in the future year by 5%

- The fiscal year 2009 Budget and Fee Schedule contains fees for services provided to the public, including cost recovery fees for development, as well as the provision of dispatching services to the residents of Stockton by the Police and Fire departments. Most fees contain an automatic inflation adjustment.

- As of June 30, 2008 state mandated costs reimbursement (SB-90) claims totaling $1.5 million are reported as deferred revenue in the General Fund because the State did not appropriate funds for this reimbursement in fiscal year 2009.

- The unemployment rate for the City was 10.0% as of June 2008. The local unemployment rate is 3.1 percentage points higher than the State unemployment rate of 6.9%, which is expected to increase since June 2008 due to the downturn in the economy.

Requests For Information

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Financial Management Department of the City of Stockton at City Hall, 425 North El Dorado Street, Stockton, CA 95202.

CITY OF STOCKTON

BASIC FINANCIAL STATEMENTS

Case 12-32118 Filed 04/21/14 Doc 1372

CTY206527

CITY OF STOCKTON

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF STOCKTON

STATEMENT OF NET ASSETS
JUNE 30, 2008
(With comparative totals as of June 30, 2007)
(Dollar amounts in thousands)

	Governmental Activities	Business-Type Activities	Totals 2008	Totals 2007
ASSETS				
Cash and investments	$ 166,153	$ 38,371	$ 203,524	$ 191,216
Restricted cash and investments	108,095	61,587	169,682	186,306
Interest receivable	1,421	794	2,215	1,488
Accounts receivable, net	17,982	7,805	25,787	20,303
Internal balances	2,142	(2,142)	-	-
Due from other governments	27,701	-	27,701	38,711
Inventory of supplies	176	1,234	1,410	1,370
Other assets	2,480	92	2,572	3,357
Advances to property owners	80,643	-	80,643	66,957
Deferred charges	6,027	2,625	8,652	8,178
Pension asset	126,105	-	126,105	123,675
Capital assets, net:				
Nondepreciable	133,587	118,976	252,563	262,992
Depreciable, net	581,188	421,450	1,002,638	967,228
Total assets	1,252,700	650,792	1,903,492	1,871,781
LIABILITIES				
Accounts payable and accrued expenses	15,049	3,721	18,770	25,870
Accrued payroll and benefits	4,277	-	4,277	3,729
Accrued interest	5,580	2,582	8,162	7,457
Deposits and other liabilities	1,468	2,209	3,677	4,554
Unearned revenue	7,886	-	7,886	4,290
Long-term liabilities:				
Due within one year	25,127	3,268	28,395	26,162
Due in more than one year	423,600	160,493	584,093	534,531
Net OPEB obligation	24,608	-	24,608	-
Total liabilities	507,595	172,273	679,868	606,593
NET ASSETS				
Invested in capital assets, net of related debt	594,070	399,813	993,883	1,024,036
Restricted for:				
Capital projects	62,277	39,503	101,780	107,230
Debt service	2,990	65	3,055	2,680
Loan programs	60,453	-	60,453	58,868
Low- and moderate-income housing	21,374	-	21,374	18,535
City-County library	5,205	-	5,205	5,279
Public safety	2,324	-	2,324	2,803
Street improvements	5,605	-	5,605	3,580
Special maintenance districts	7,245	-	7,245	5,858
Endowments:				
Nonexpendable	1,604	-	1,604	1,604
Expendable	333	-	333	297
Other purposes	2,678	-	2,678	2,333
Unrestricted	(21,053)	39,138	18,085	32,307
Total net assets	$ 745,105	$ 478,519	$ 1,223,624	$ 1,265,188

The notes to the financial statements are an integral part of this statement.

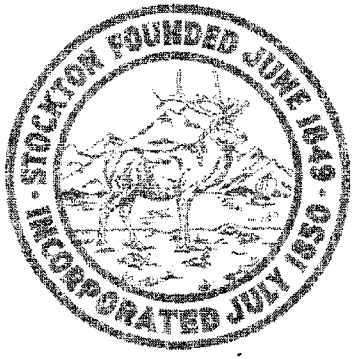
CITY OF STOCKTON

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008
(With comparative totals for the year ended June 30, 2007)
(Dollar amounts in thousands)

FUNCTIONS/PROGRAMS	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-Type Activities	Net (Expense) Revenue and Changes in Net Assets: Totals 2008	Net (Expense) Revenue and Changes in Net Assets: Totals 2007
PRIMARY GOVERNMENT:								
Governmental activities:								
General government	$ 27,819	$ 12,141	$ 17	$ -	$ (15,661)		$ (15,661)	$ (18,019)
Public safety	181,187	30,738	2,257	499	(147,693)		(147,693)	(125,232)
Public works	134,737	30,429	604	33,853	(69,851)		(69,851)	40,773
Library	14,723	1,462	6,903	-	(6,358)		(6,358)	(5,382)
Parks and recreation	33,138	9,741	571	9,522	(13,304)		(13,304)	(13,758)
Interest and fiscal charges	17,921	-	-	-	(17,921)		(17,921)	(11,746)
Total governmental activities	409,525	84,511	10,352	43,874	(270,788)		(270,788)	(133,364)
Business-type activities:								
Water utility	22,070	22,882	-	3,445		$ 4,257	4,257	7,977
Wastewater utility	40,045	33,661	-	6,212		(172)	(172)	1,858
Stormwater utility	6,696	6,160	-	3,594		3,058	3,058	4,112
Central parking district	5,002	3,815	-	-		(1,187)	(1,187)	(784)
Other	2,093	2,065	-	-		(28)	(28)	(69)
Total business-type activities	75,906	68,583	-	13,251		5,928	5,928	13,114
Total	$ 485,431	$ 153,094	$ 10,352	$ 57,125	(270,788)	5,928	(264,860)	(120,250)
General revenues:								
Taxes:								
Property					63,998	-	63,998	60,015
In lieu of sales tax					10,164	-	10,164	11,070
Utility user					30,861	-	30,861	30,101
Sales - levied by City					9,409	-	9,409	9,249
Franchise fees					11,537	-	11,537	10,817
Business license					10,772	-	10,772	10,265
Hotel/motel room					2,287	-	2,287	2,180
Document transfer					686	-	686	1,187
Other					246	1,055	1,301	1,238
Shared revenue:								
Vehicle License Fees					24,051	-	24,051	22,661
Sales and use tax levied by state					36,098	-	36,098	36,745
Other					389	-	389	384
Investment earnings					15,007	5,892	20,899	17,409
Miscellaneous					756	-	756	786
Gain from disposal of capital assets					88	-	88	-
Transfers					1,049	(1,049)	-	-
Total general revenues and transfers					217,398	5,898	223,296	214,127
Change in net assets					(53,390)	11,826	(41,564)	93,877
Net assets, beginning of year, as restated					798,495	466,693	1,265,188	1,171,311
Net assets, end of year					$ 745,105	$ 478,519	$ 1,223,624	$ 1,265,188

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON



FUND FINANCIAL STATEMENTS

FUND FINANCIAL STATEMENTS

Governmental Fund Types

Governmental funds consist of the General Fund, special revenue funds, debt service funds, capital projects funds, and permanent funds.

Major Governmental Funds include:

- **General Fund**
  The fund used to account for resources that are not required legally or by sound financial management to be accounted for in another fund.

- **Public Facilities Impact Fees**
  To account for the collection of and expenditure of fees imposed as a condition of new development within the City. Impact fees have been established for each of the following types of public facilities:

  - Traffic signals
  - Street improvements
  - Community recreation centers
  - City office space
  - Fire stations
  - Libraries
  - Police stations
  - Parkland, street tree & street signs
  - Street light in-lieu
  - Air quality mitigation
  - Public facilities fees - administration

- **Capital Improvement**
  To account for the acquisition, construction and improvement of capital facilities financed by grants and operating transfers from other City funds.

- **Redevelopment Agency**
  To account for the acquisition, relocation, demolition and sale of land for those portions of the City earmarked for redevelopment. Projects are financed from bond proceeds, loans from other city funds and property tax increment revenue.

Proprietary Fund Types

Proprietary funds consist of the enterprise funds and the internal service funds.

Major enterprise funds include:

- **Water Utility**
  To account for activities associated with the acquisition or construction of water facilities, production, distribution and transmission of potable water to users.

- **Wastewater Utility**
  To account for activities associated with the acquisition or construction, and operation and maintenance of wastewater facilities for collection, treatment, and *disposal of wastewater.*

- **Stormwater Utility**
  To account for activities associated with the acquisition or construction, and operation and maintenance of stormwater facilities for drainage and disposal of stormwater.

- **Central Parking District**
  To account for activities associated with the acquisition or construction, operation and maintenance of off-street parking facilities.

Fiduciary Fund Type

The fiduciary funds are the:

- **Agency Funds**
  To account for assets held in an agency capacity for parties outside the City. The resources of these funds cannot be used to support the City's own programs.

CITY OF STOCKTON

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008
(With comparative totals as of June 30, 2007)
(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental 2008	Total Governmental 2007
ASSETS							
Cash and investments	$ 3,463	$ 61,607	$ 6,224	$ 4,305	$ 33,870	$ 109,469	$ 106,725
Cash and investments with fiscal agents	-	-	5,255	77,079	25,668	108,002	107,009
Receivables:							
Interest	378	626	73	178	166	1,421	832
Taxes and special assessments	9	-	-	-	-	9	9
Accounts and other receivables	21,360	1,583	36	34	2,287	25,320	19,753
Allowance for uncollectibles	(8,187)	-	-	-	-	(8,187)	(7,311)
Due from other funds	1,238	-	3,673	-	-	4,911	8,599
Due from other governments	8,394	-	6,064	564	13,669	28,691	39,701
Allowance for uncollectibles	(16)	-	(737)	-	(237)	(990)	(990)
Due from other agencies	619	-	-	-	-	619	523
Prepaid Items	738	-	-	-	-	738	1,007
Inventory of supplies	176	-	-	-	-	176	174
Deposits	-	446	630	38	-	1,114	1,420
Advances to other funds	9,770	1,116	19,685	-	15,271	45,842	46,758
Advances to property owners	-	-	-	90	80,553	80,643	66,957
Total assets	$ 37,962	$ 65,378	$ 40,903	$ 82,288	$ 171,247	$ 397,778	$ 391,166
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Accounts payable	$ 2,057	$ 1,832	$ 1,637	$ 2,642	$ 5,543	$ 13,711	$ 15,737
Accrued payroll and benefits	4,277	-	-	-	-	4,277	3,729
Due to other funds	-	-	-	-	4,780	4,780	8,471
Due to other governments	-	-	30	-	52	82	64
Due to other agencies	111	-	-	-	-	111	116
Deposits and other liabilities	359	-	-	4	777	1,140	2,209
Deferred revenue	8,033	1,163	5,801	-	2,085	17,082	11,832
Advances from other funds	-	1,866	350	34,083	8,062	44,361	45,287
Total liabilities	14,837	4,861	7,818	36,729	21,299	85,544	87,445
FUND BALANCES:							
Reserved	13,498	60,517	22,039	81,912	124,900	302,866	311,772
Unreserved, reported in:							
General Fund:							
Designated	9,627	-	-	-	-	9,627	15,761
Special revenue funds:							
Designated	-	-	-	-	132	132	132
Undesignated	-	-	-	-	24,545	24,545	3,854
Debt service funds	-	-	-	-	38	38	(196)
Capital projects funds	-	-	11,046	(36,353)	-	(25,307)	(27,899)
Permanent fund	-	-	-	-	333	333	297
Total fund balances	23,125	60,517	33,085	45,559	149,948	312,234	303,721
Total liabilities and fund balances	$ 37,962	$ 65,378	$ 40,903	$ 82,288	$ 171,247	$ 397,778	$ 391,166

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008
(With comparative totals as of June 30, 2007)
(Dollar amounts in thousands)

	2008	2007
Amounts reported for governmental activities in the statement of net assets are different because:		
Total fund balances - total governmental	$ 312,234	$ 303,721
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Nondepreciable capital assets	133,587	166,693
Depreciable capital assets, net	570,169	531,166
Internal service funds are used by management to charge the costs of central garage, computer equipment, radio equipment, other equipment, general liability insurance, workers' compensation insurance, health benefits insurance, other insurance, and retirement to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	(10,602)	7,415
Various long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds as follows:		
Compensated absences	(18,159)	(18,538)
Bonds payable and other long-term debt	(249,626)	(197,207)
Unamortized bond discounts, premiums and deferred amount on refunding	(2,748)	(2,837)
Accrued interest	(3,291)	(3,219)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are:		
deferred in the governmental funds, or	9,196	7,542
not recorded in the governmental funds.	4,345	3,759
Net assets of governmental activities	$ 745,105	$ 798,495

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008
(With comparative totals for the year ended June 30, 2007)
(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental 2008	Total Governmental 2007
REVENUES:							
Taxes:							
Property	$ 37,077	$ -	$ -	$ 26,921	$ -	$ 63,998	$ 60,015
In lieu of sales tax	10,164	-	-	-	-	10,164	11,070
Utility user	30,861	-	-	-	-	30,861	30,101
Sales - levied by City	-	-	-	-	9,409	9,409	9,249
Franchise fees	11,537	-	-	-	-	11,537	10,817
Business license	10,134	-	-	-	638	10,772	10,285
Hotel/motel room	2,287	-	-	-	-	2,287	2,180
Document transfer	686	-	-	-	-	686	1,187
Other	2	-	-	-	244	246	257
Licenses and permits	377	-	-	-	4,896	5,273	6,777
Intergovernmental:							
Federal grants and subsidies	-	-	3	-	13,614	13,617	26,532
Sales and use tax - levied by state	31,900	-	-	-	4,198	36,098	36,745
Other governmental	24,872	-	9,528	325	25,251	59,976	63,064
Charges for services	10,213	24,251	-	2	20,778	55,244	51,739
Fines and forfeitures	3,302	-	-	-	19	3,321	3,323
Use of money and property	2,462	86	1,665	6	8,703	12,922	9,709
Investment income:							
Interest income	1,316	2,896	422	5,455	1,496	11,585	8,551
Net increase (decrease) in fair value of investments	302	450	398	67	298	1,515	1,238
Refunds and reimbursements	3,709	3	300	1	240	4,253	8,199
Miscellaneous	6,086	-	-	454	1,975	8,515	9,163
Total revenues	187,287	27,686	12,316	33,231	91,759	352,279	360,201
EXPENDITURES:							
Current:							
General government	15,089	-	-	16	7,180	22,285	20,030
Public safety	143,955	-	-	-	24,417	168,372	163,479
Public works	13,936	-	-	-	4,528	18,464	19,478
Library	-	-	-	-	13,432	13,432	12,648
Parks and recreation	8,904	-	-	-	18,281	27,185	25,747
Capital outlay	86	26,029	46,239	39,212	23,505	135,071	98,819
Debt service:							
Principal retirement	-	-	-	27	990	1,017	591
Cost of issuance	30	-	703	-	44	777	2,069
Interest and fiscal charges	-	-	-	32	10,739	10,771	7,892
Total expenditures	182,000	26,029	46,942	39,287	103,116	397,374	350,753
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,287	1,657	(34,626)	(6,056)	(11,357)	(45,095)	9,448

The notes to the financial statements are an integral part of this statement.

(Continued)

CITY OF STOCKTON

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2008
(With comparative totals for the year ended June 30, 2007)
(Dollar amounts in thousands)

	General	Public Facilities Impact Fees	Capital Improvement	Redevelopment Agency	Other Governmental	Total Governmental 2008	Total Governmental 2007
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	5,287	1,657	(34,626)	(6,056)	(11,357)	(45,095)	9,448
OTHER FINANCING SOURCES (USES):							
Transfers in	5,845	-	3,144	205	50,797	59,991	78,825
Transfers out	(17,019)	(137)	-	(19,367)	(23,316)	(59,839)	(80,506)
Issuance of long-term debt	-	-	40,770	366	12,300	53,436	110,509
Sales of capital assets	44	-	-	-	-	44	5
Premiums on debt issuances	-	-	-	-	-	-	2,377
Discounts on debt issuances	(24)	-	-	-	-	(24)	-
Total other financing sources (uses)	(11,154)	(137)	43,914	(18,796)	39,781	53,608	111,210
NET CHANGE IN FUND BALANCES	(5,867)	1,520	9,288	(24,852)	28,424	8,513	120,658
FUND BALANCES, BEGINNING OF YEAR, AS RESTATED	28,992	58,997	23,797	70,411	121,524	303,721	183,063
FUND BALANCES, END OF YEAR	$ 23,125	$ 60,517	$ 33,085	$ 45,559	$ 149,948	$ 312,234	$ 303,721

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2008
(With comparative totals for the year ended June 30, 2007)
(Dollar amounts in thousands)

	2008	2007
Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balances - total governmental	$ 8,513	$ 120,658
Governmental funds report capital outlays as expenditures. As donated capital assets don't create or use financial resources, they are not reported in governmental funds. However, in the statement of activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. Capital outlays, donated capital assets and depreciation expense are as follows:		
Capitalized capital outlays	88,819	55,629
Donated capital assets	4,894	19,382
Depreciation expense	(17,276)	(13,324)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, dispositions, etc.) is to decrease net assets. The 2008 amount is for completed construction in progress transferred to other entities.	(70,540)	(10)
Long-term debt (including refunding debt), net of bond premiums and discounts, provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal (including bond refundings) and costs of issuance are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets, and the costs of issuance increase deferred charges in the statement of net assets. Long-term debt proceeds, bond premiums, discounts, repayment of principal, costs of issuance and bond refundings are as follows:		
Long-term debt issuance	(53,436)	(110,509)
Premiums on debt issuances	-	(2,377)
Discounts on debt issuances	24	-
Repayment of principal	1,017	591
Costs of issuance	777	2,069
Internal service funds are used by management to charge the costs of certain activities, such as central garage, equipment and insurance, to individual funds. The net revenue (expense) of internal service funds is reported with governmental activities.	(18,017)	6,923
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	1,654	(1,406)
Other expenses in the statement of activities that do not use current financial resources are not reported as expenditures in the governmental funds.		
Change in compensated absences	379	(1,077)
Amortization of bond discounts and premiums, costs of issuance, and deferred amount on refunding	(126)	(90)
Change in accrued interest	(72)	(2,134)
Change in net assets of governmental activities	$ (53,390)	$ 74,325

The notes to the financial statements are an integral part of this statement.

CITY OF STOCKTON

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2008
(With comparative totals as of June 30, 2007)
(Dollar amounts in thousands)

	Enterprise			Enterprise				Internal Service	
	Water Utility	Wastewater Utility	Stormwater Utility	Central Parking District	Other	Totals 2008	Totals 2007	2008	2007
ASSETS									
Current assets:									
Cash and investments	$ 22,833	$ 11,510	$ 3,096	$ 709	$ 223	$ 38,371	$ 34,321	$ 55,684	$ 48,951
Cash and investments with fiscal agents	-	-	-	-	-	-	1,209	-	-
Receivables:									
Interest	271	485	33	6	(1)	794	656	-	-
Accounts and other receivables	2,530	5,964	1,104	393	155	10,146	9,837	982	541
Allowance for uncollectibles	(490)	(1,285)	(342)	(110)	(114)	(2,341)	(2,390)	(133)	(127)
Inventory of supplies	-	1,201	-	-	33	1,234	1,196	-	-
Total current assets	25,144	17,875	3,891	998	296	48,204	44,829	56,533	49,365
Noncurrent assets:									
Restricted assets:									
Cash and investments	3,796	35,707	-	-	-	39,503	46,785	-	-
Cash and investments with fiscal agents	16,731	2,252	-	3,101	-	22,084	32,512	93	10
Advances to other funds	-	65	-	847	-	912	922	530	-
Loans receivable	-	92	-	-	-	92	398	-	-
Deferred charges	742	1,062	-	821	-	2,625	2,747	1,682	1,672
Pension asset	-	-	-	-	-	-	-	126,105	123,675
Capital assets, net:									
Nondepreciable	21,736	87,345	1,220	8,315	360	118,976	96,299	-	-
Depreciable, net	87,656	251,732	51,681	29,171	1,210	421,450	425,147	11,019	10,915
Total noncurrent assets	130,661	378,255	52,901	42,255	1,570	605,642	604,810	139,429	136,272
Total assets	155,805	396,130	56,792	43,253	1,866	653,846	649,639	195,962	185,637
LIABILITIES									
Current liabilities:									
Accounts payable	798	2,579	132	93	119	3,721	9,255	1,338	878
Due to other funds	-	-	-	-	131	131	126	-	-
Due to other governments	178	-	-	-	-	178	113	-	-
Deposits and other liabilities	1,872	48	10	101	-	2,031	1,917	135	135
Accrued interest	427	1,607	-	548	-	2,582	2,622	2,289	1,616
Compensated absences - current	19	142	14	17	3	195	207	3,285	3,232
Self-insurance claims and judgments - current	-	-	-	-	-	-	-	11,827	11,266
Other long-term debt - current	600	2,310	-	163	-	3,073	2,776	71	250
Total current liabilities	3,894	6,686	156	922	253	11,911	17,018	18,945	17,377
Noncurrent liabilities:									
Advances from other funds	-	-	-	2,160	763	2,923	2,393	-	-
Compensated absences - long-term	35	203	-	23	-	262	172	917	2,402
Self-insurance claims and judgments - long-term	-	-	-	-	-	-	-	36,131	33,383
Capital lease obligations	-	-	-	-	-	-	-	923	-
Notes payable	610	-	-	-	-	610	731	-	-
Certificates of participation	-	92,073	-	-	-	92,073	94,383	-	-
Bonds payable	35,199	-	-	32,349	-	67,548	68,249	125,040	125,060
Net OPEB obligation	-	-	-	-	-	-	-	24,608	-
Total noncurrent liabilities	35,845	92,276	-	34,532	763	163,416	165,928	187,619	160,845
Total liabilities	39,739	98,962	156	35,454	1,016	175,327	182,946	206,564	178,222
NET ASSETS									
Invested in capital assets, net of related debt	90,381	246,931	52,901	8,030	1,570	399,813	387,198	10,045	10,915
Restricted for capital projects	3,796	35,707	-	-	-	39,503	46,785	-	-
Restricted for debt service	5	15	-	45	-	65	65	93	10
Unrestricted	21,884	14,515	3,735	(276)	(720)	39,138	32,645	(20,740)	(3,510)
Total net assets	$ 116,066	$ 297,168	$ 56,636	$ 7,799	$ 850	$ 478,519	$ 466,693	$ (10,602)	$ 7,415

The notes to the financial statements are an integral part of this statement.