

# **Stockton Redevelopment Successor Agency**

Stockton, California

**Independent Accountant's Report on  
Applying Agreed-Upon Procedures relating to  
the Due Diligence Review in accordance with AB 1484  
applied to the Successor Agency**

*For the year ended June 30, 2012*



# Stockton Redevelopment Successor Agency

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Management Representation Letter





ATTACHMENT B  
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## INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

To the Oversight Board of the  
Stockton Redevelopment Successor Agency  
Stockton, California

We have performed the required agreed-upon procedures ("AUP") enumerated in Attachment A, which were agreed to by the California State Controller's Office and the California State Department of Finance, solely to assist the Oversight Board of the Stockton Redevelopment Successor Agency ("Successor Agency") that the dissolved Stockton Redevelopment Agency ("Agency") of the City of Stockton, California ("City") is complying with its statutory requirements with respect to Assembly Bill ("AB") 1484. Management of the City is responsible for the accounting records pertaining to statutory compliance pursuant to California Health and Safety Code section 34179.5(c)(1) through 34179.5(c)(6).

This procedure applied to all other remaining funds of the Successor Agency and not to the Successor Agency as a whole. The procedures applied to the Low and Moderate Income Housing Fund were completed and we have issued our report thereon dated February 19, 2014.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion as to the appropriateness of the financial information summarized in Exhibits, as listed in the table of contents. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Successor Agency, the Agency, the City, California State Controller's Office and the California State Department of Finance, and is not intended to be, and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*PUN & McGEADY LLP*

Walnut Creek, California  
February 19, 2014

**ATTACHMENT A – AGREED-UPON PROCEDURES AND RESULTS**

Stockton Redevelopment Successor Agency  
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**Citation:**

*34179.5(c)(1) The dollar value of assets transferred from the former redevelopment agency to the successor agency on or about February 1, 2012.*

**Procedures Performed:**

1. Obtain from the Successor Agency a listing of all assets that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012. Agree the amounts on this listing to account balances established in the accounting records of the Successor Agency. Identify in the Agreed-Upon Procedures (AUP) report the amount of the assets transferred to the Successor Agency as of that date.

**Results:**

Reviewed trial balance reports and journal entries and noted all assets were transferred from the former redevelopment agency to the Successor Agency effective February 1, 2012 as journal entries were posted after February 1, 2012 therefore made retroactive to February 1, 2012. Also noted new funds were created to account for assets and liabilities of the Successor Agency upon RDA dissolution.

See Exhibit A for the listing obtained from the Successor Agency of all assets that were transferred from the former redevelopment agency to the Successor Agency on February 1, 2012.

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**Citation:**

*34179.5(c)(2) The dollar value of assets and cash and cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to the city, county, or city and county that formed the redevelopment agency and the purpose of each transfer. The review shall provide documentation of any enforceable obligation that required the transfer.*

**Procedures Performed:**

2. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:
  - A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the former redevelopment agency to the city, county, or city and county that formed the redevelopment agency for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) from the Successor Agency to the city, county, or city and county that formed the redevelopment agency for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

**Results:**

See Exhibit B attached for the State Controller's Office Asset Transfer Review Report for periods January 1, 2011 through January 31, 2012. The State Controller's Office noted \$1,426,531 in unallowable asset transfers to the City of Stockton (refer to Schedule 1 of State Controller's Office Report). However, the Successor Agency Oversight Board Approved Resolution No. OB 2012-10-10-06 on October 10, 2012, declaring \$65,000 in assets for a governmental purpose. Since these unallowable assets are related to low-moderate income housing, no further action is required for this procedure.

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**Citation:**

*34179.5(c)(3) The dollar value of any cash or cash equivalents transferred after January 1, 2011, through June 30, 2012, by the redevelopment agency or the successor agency to any other public agency or private party and the purpose of each transfer. The review shall provide documentation of any enforceable obligation that required the transfer.*

**Procedures Performed:**

3. If the State Controller's Office has completed its review of transfers required under both Sections 34167.5 and 34178.8 and issued its report regarding such review, attach a copy of that report as an exhibit to the AUP report. If this has not yet occurred, perform the following procedures:
  - A. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) [from the former redevelopment agency to any other public agency or to private parties for the period from January 1, 2011 through January 31, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - B. Obtain a listing prepared by the Successor Agency of transfers (excluding payments for goods and services) [from the Successor Agency to any other public agency or private parties for the period from February 1, 2012 through June 30, 2012. For each transfer, the Successor Agency should describe the purpose of the transfer and describe in what sense the transfer was required by one of the Agency's enforceable obligations or other legal requirements. Provide this listing as an attachment to the AUP report.
  - C. For each transfer, obtain the legal document that formed the basis for the enforceable obligation that required any transfer. Note in the AUP report the absence of any such legal document or the absence of language in the document that required the transfer.

**Results:**

See Exhibit B attached for the State Controller's Office Asset Transfer Review Report for periods January 1, 2011 through January 31, 2012. The State Controller's Office noted \$1,426,531 in unallowable asset transfers to the City of Stockton. However, the Successor Agency Oversight Board Approved Resolution No. OB 2012-10-10-06 on October 10, 2012, declaring \$65,000 in assets for a governmental purpose. Since these unallowable assets are related to low-moderate income housing, no further action is required for this procedure.

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**Citation:**

*34179.5(c)(4) The review shall provide expenditure and revenue accounting information and identify transfers and funding sources for the 2010–11 and 2011–12 fiscal years that reconciles balances, assets, and liabilities of the successor agency on June 30, 2012 to those reported to the Controller for the 2009–10 fiscal year.*

**Procedures Performed:**

4. Perform the following procedures:

- A. Obtain from the Successor Agency a summary of the financial transactions of the Redevelopment Agency and the Successor Agency in the format set forth in the attached schedule for the fiscal periods indicated in the schedule. For purposes of this summary, the financial transactions should be presented using the modified accrual basis of accounting. End of year balances for capital assets (in total) and long-term liabilities (in total) should be presented at the bottom of this summary schedule for information purposes.
- B. Ascertain that for each period presented, the total of revenues, expenditures, and transfers accounts fully for the changes in equity from the previous fiscal period.
- C. Compare amounts in the schedule relevant to the fiscal year ended June 30, 2010 to the state controller's report filed for the Redevelopment Agency for that period.
- D. Compare amounts in the schedule for the other fiscal periods presented to account balances in the accounting records or other supporting schedules. Describe in the report the type of support provided for each fiscal period.

**Results:**

See Exhibit C for the summary obtained from the Successor Agency of the financial transactions of the Redevelopment Agency and the Successor Agency in the format set forth in the attached schedule for the fiscal periods indicated in the schedule.

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**Citation:**

*34179.5(c)(5) A separate accounting for the balance for the Low and Moderate Income Housing Fund for all other funds and accounts combined shall be made as follows:*

*(A) A statement of the total value of each fund as of June 30, 2012*

**Procedures Performed:**

5. Obtain from the Successor Agency a listing of all assets of the Low and Moderate Income Housing Fund as of June 30, 2012 for the report that is due October 1, 2012 and a listing of all assets of all other funds of the Successor Agency as of June 30, 2012 (excluding the previously reported assets of the Low and Moderate Income Housing Fund) for the report that was due December 15, 2012. When this procedure is applied to the Low and Moderate Income Housing Fund, the schedule attached as an exhibit will include only those assets of the Low and Moderate Income Housing Fund that were held by the Successor Agency as of June 30, 2012 and will exclude all assets held by the entity that assumed the housing function previously performed by the former redevelopment agency. Agree the assets so listed to recorded balances reflected in the accounting records of the Successor Agency. The listings should be attached as an exhibit to the appropriate AUP report.

**Results:**

See Exhibit D for the listing obtained from the Successor Agency of all assets of all other funds of the Successor Agency as of June 30, 2012 excluding the previously reported assets of the Low and Moderate Income Housing Fund.

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**Citation:**

*34179.5(c)(5)(B) An itemized statement listing any amounts that are legally restricted as to purpose and cannot be provided to taxing entities. This could include the proceeds of any bonds, grant funds, or funds provided by other governmental entities that place conditions on their use.*

**Procedures Performed:**

6. Obtain from the Successor Agency a listing of asset balances held on June 30, 2012 that are restricted for the following purposes:
  - A. Unspent bond proceeds:
    1. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures, amounts set aside for debt service payments, etc.)
    2. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
    3. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

**Results:**

See Exhibit E for the listing of Restricted Asset Balances from bond proceeds.

- B. Grant proceeds and program income that are restricted by third parties:
  - i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
  - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
  - iii. Obtain from the Successor Agency a copy of the grant agreement that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by the Successor Agency as restricted.

**Results:**

There were no grant proceeds or program income that are restricted by third parties at June 30, 2012. Therefore, these procedures are not applicable.

- C. Other assets considered to be legally restricted:
- i. Obtain the Successor Agency's computation of the restricted balances (e.g., total proceeds less eligible project expenditures).
  - ii. Trace individual components of this computation to related account balances in the accounting records, or to other supporting documentation (specify in the AUP report a description of such documentation).
  - iii. Obtain from the Successor Agency a copy of the legal document that sets forth the restriction pertaining to these balances. Note in the AUP report the absence of language restricting the use of the balances that were identified by Successor the Agency as restricted.

**Results:**

There were no other assets that are restricted by third parties at June 30, 2012. Therefore, these procedures are not applicable.

- D. Attach the above mentioned Successor Agency prepared schedule(s) as an exhibit to the AUP report. For each restriction identified on these schedules, indicate in the report the period of time for which the restrictions are in effect. If the restrictions are in effect until the related assets are expended for their intended purpose, this should be indicated in the report.

**Results:**

See Exhibit E for the listing obtained from the Successor Agency of asset balances held on June 30, 2012 that are restricted for the purposes specified above.

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**Citation:**

*34179.5(c)(5)(C) An itemized statement of the values of any assets that are not cash or cash equivalents. This may include physical assets, land, records, and equipment. For the purpose of this accounting, physical assets may be valued at purchase cost or at any recently estimated market value. The statement shall list separately housing-related assets.*

**Procedures Performed:**

7. Perform the following procedures:

- A. Obtain from the Successor Agency a listing of assets as of June 30, 2012 that are **not** liquid or otherwise available for distribution (such as capital assets, land held for resale, long-term receivables, etc.) and ascertain if the values are listed at either purchase cost (based on book value reflected in the accounting records of the Successor Agency) or market value as recently estimated by the Successor Agency.

**Results:**

See Exhibit F for the listing obtained from the Successor Agency of assets as of June 30, 2012 that are not liquid or otherwise available for distribution.

- B. If the assets listed at 7(A) are listed at purchase cost, trace the amounts to a previously audited financial statement (or to the accounting records of the Successor Agency) and note any differences.

**Results:**

Noted no differences.

- C. For any differences noted in 7(B), inspect evidence of disposal of the asset and ascertain that the proceeds were deposited into the Successor Agency trust fund. If the differences are due to additions (this generally is not expected to occur), inspect the supporting documentation and note the circumstances.

**Results:**

Noted no differences.

- D. If the assets listed at 7(A) are listed at recently estimated market value, inspect the evidence (if any) supporting the value and note the methodology used. If no evidence is available to support the value and/or methodology, note the lack of evidence.

**Results:**

The assets listed at 7(A) are listed at actual cost.

**Citation:**

*34179.5(c)(5)(D) An itemized listing of any current balances that are legally or contractually dedicated or restricted for the funding of an enforceable obligation that identifies the nature of the dedication or restriction and the specific enforceable obligation. In addition, the successor agency shall provide a listing of all approved enforceable obligations that includes a projection of annual spending requirements to satisfy each obligation and a projection of annual revenues available to fund those requirements. If a review finds that future revenues together with dedicated or restricted balances are insufficient to fund future obligations and thus retention of current balances is required, it shall identify the amount of current balances necessary for retention. The review shall also detail the projected property tax revenues and other general purpose revenues to be received by the successor agency, together with both the amount and timing of the bond debt service payments of the successor agency, for the period in which the oversight board anticipates the successor agency will have insufficient property tax revenue to pay the specified obligations.*

**Procedures Performed:**

## 8. Perform the following procedures:

- A. If the Successor Agency believes that asset balances need to be retained to satisfy enforceable obligations, obtain from the Successor Agency an itemized schedule of asset balances (resources) as of June 30, 2012 that are dedicated or restricted for the funding of enforceable obligations and perform the following procedures. The schedule should identify the amount dedicated or restricted, the nature of the dedication or restriction, the specific enforceable obligation to which the dedication or restriction relates, and the language in the legal document that is associated with the enforceable obligation that specifies the dedication of existing asset balances toward payment of that obligation.
- i. Compare all information on the schedule to the legal documents that form the basis for the dedication or restriction of the resource balance in question.
  - ii. Compare all current balances to the amounts reported in the accounting records of the Successor Agency or to an alternative computation.
  - iii. Compare the specified enforceable obligations to those that were included in the final Recognized Obligation Payment Schedule approved by the California Department of Finance.
  - iv. Attached as an exhibit to the report the listing obtained from the Successor Agency. Identify in the report any listed balances for which the Successor Agency was unable to provide appropriate restricting language in the legal document associated with the enforceable obligation.

**Results:**

Obtained and Reviewed Recognized Obligation Payment Schedules (ROPS) for the periods of July 1, 2012 to December 31, 2012. Noted all obligations listed in the ROPS related to all other funds of the successor agency in addition to the Low & Moderate Income Housing fund were approved by the California Department of Finance as Enforceable Obligation.

- B. If the Successor Agency believes that future revenues together with balances dedicated or restricted to an enforceable obligation are insufficient to fund future obligation payments and thus retention of current balances is required, obtain from the Successor Agency a schedule of approved enforceable obligations that includes a projection of the annual spending requirements to satisfy each obligation and a projection of the annual revenues available to fund those requirements and perform the following procedures:
- i. Compare the enforceable obligations to those that were approved by the California Department of Finance. Procedures to accomplish this may include reviewing the letter from the California Department of Finance approving the Recognized Enforceable Obligation Payment Schedules for the six month period from January 1, 2012 through June 30, 2012 and for the six month period July 1, 2012 through December 31, 2012.
  - ii. Compare the forecasted annual spending requirements to the legal document supporting each enforceable obligation.
    - a. Obtain from the Successor Agency its assumptions relating to the forecasted annual spending requirements and disclose in the report major assumptions associated with the projections.
  - iii. For the forecasted annual revenues:
    - a. Obtain from the Successor Agency its assumptions for the forecasted annual revenues and disclose in the report major assumptions associated with the projections.

**Results:**

Obtained and Reviewed Recognized Obligation Payment Schedules (ROPS) for the periods of July 1, 2012 to December 31, 2012. Noted all obligations listed in the ROPS related to all other funds of the successor agency in addition to the Low & Moderate Income Housing fund were approved by the California Department of Finance as Enforceable Obligation.

When reviewing the Committed Project Expenses for the McKinley Park caretaker Building Asbestos Removal project we determined that the amount of \$5,630 was from purchase order to DJ Jolley Co that was subsequently cancelled and should be removed from the ROPS.

We also noted that the Total Outstanding for line items 8, 9, 10 did not equal the total of future payments to be made for those obligations.

- C. If the Successor Agency believes that projected property tax revenues and other general purpose revenues to be received by the Successor Agency are insufficient to pay bond debt service payments (considering both the timing and amount of the related cash flows), obtain from the Successor Agency a schedule demonstrating this insufficiency and apply the following procedures to the information reflected in that schedule.
- i. Compare the timing and amounts of bond debt service payments to the related bond debt service schedules in the bond agreement.
  - ii. Obtain the assumptions for the forecasted property tax revenues and disclose major assumptions associated with the projections.
  - iii. Obtain the assumptions for the forecasted other general purpose revenues and disclose major assumptions associated with the projections.

**Results:**

Obtained and Reviewed Recognized Obligation Payment Schedules (ROPS) for the periods of July 1, 2012 to December 31, 2012. Noted all obligations listed in the ROPS related to all other funds of the successor agency in addition to the Low & Moderate Income Housing fund were approved by the California Department of Finance as Enforceable Obligation.

- D. If procedures A, B, or C were performed, calculate the amount of current unrestricted balances necessary for retention in order to meet the enforceable obligations by performing the following procedures.
- i. Combine the amount of identified current dedicated or restricted balances and the amount of forecasted annual revenues to arrive at the amount of total resources available to fund enforceable obligations.
  - ii. Reduce the amount of total resources available by the amount forecasted for the annual spending requirements. A negative result indicates the amount of current unrestricted balances that needs to be retained.
  - iii. Include the calculation in the AUP report.

**Results:**

See Exhibit G for Recognized Obligation payment Schedule.

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**Citation:**

*34179.5(c)(5)(E) An itemized list and analysis of any amounts of current balances that are needed to satisfy obligations that will be placed on the Recognized Obligation Payment Schedules for the current fiscal year.*

**Procedures Performed:**

9. If the Successor Agency believes that cash balances as of June 30, 2012 need to be retained to satisfy obligations on the Recognized Obligation Payment Schedule (ROPS) for the period of July 1, 2012 through June 30, 2013, obtain a copy of the final ROPS for the period of July 1, 2012 through December 31, 2012 and a copy of the final ROPS for the period January 1, 2013 through June 30, 2013. For each obligation listed on the ROPS, the Successor Agency should add columns identifying (1) any dollar amounts of existing cash that are needed to satisfy that obligation and (2) the Successor Agency's explanation as to why the Successor Agency believes that such balances are needed to satisfy the obligation. Include this schedule as an attachment to the AUP report.

**Results:**

Obtained and Reviewed Recognized Obligation Payment Schedules (ROPS) for the periods of July 1, 2012 to December 31, 2012 and January 1, 2013 to June 30, 2013. Noted all obligations listed in the ROPS related to Low & Moderate Income Housing Fund were accepted by California Department of Finance as Enforceable Obligation.

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**Citation:**

*34179.5(c)(6) The review shall total the net balances available after deducting the total amounts described in subparagraphs (B) to (E), inclusive, of paragraph (5). The review shall add any amounts that were transferred as identified in paragraphs (2) and (3) of subdivision (c) if an enforceable obligation to make that transfer did not exist. The resulting sum shall be available for allocation to affected taxing entities pursuant to Section 34179.6. It shall be a rebuttable presumption that cash and cash equivalent balances available to the successor agency are available and sufficient to disburse the amount determined in this paragraph to taxing entities. If the review finds that there are insufficient cash balances to transfer or that cash or cash equivalents are specifically obligated to the purposes described in subparagraphs (B), (D), and (E) of paragraph (5) in such amounts that there is insufficient cash to provide the full amount determined pursuant to this paragraph, that amount shall be demonstrated in an additional itemized schedule.*

**Procedures Performed:**

10. Include (or present) a schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities. Amounts included in the calculation should agree to the results of the procedures performed in each section above. The schedule should also include a deduction to recognize amounts already paid to the County Auditor-Controller on July 12, 2012 as directed by the California Department of Finance. The amount of this deduction presented should be agreed to evidence of payment. The attached example summary schedule may be considered for this purpose. Separate schedules should be completed for the Low and Moderate Income Housing Fund and for all other funds combined (excluding the Low and Moderate Income Housing Fund).

**Results:**

No exceptions were noted.

See Exhibit H for schedule detailing the computation of the Balance Available for Allocation to Affected Taxing Entities.

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Agreed Upon Procedures – AB 1484 Due Diligence Review  
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**Management Representation Letter**

11. Obtain a representation letter from Successor Agency management acknowledging their responsibility for the data provided to the practitioner and the data presented in the report or in any attachments to the report. Included in the representations should be an acknowledgment that management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the AUP report and its related exhibits. Management's refusal to sign the representation letter should be noted in the AUP report as required by attestation standards.

**Results:**

See Exhibit I for Management Representation Letter.

**EXHIBITS**

**Exhibit A**

All assets transferred from the former redevelopment agency to the Successor Agency on February 1, 2012

**Exhibit B**

State Controller's Office Asset Transfer Review Report for the period from January 1, 2011 through January 31, 2012

**Exhibit C**

Summary of Financial Transactions

**Exhibit D**

Assets of all other funds of the Successor Agency

**Exhibit E**

Asset balances held on June 30, 2012 restricted for various purposes

**Exhibit F**

Assets as if June 30, 2012 not liquid or otherwise available for distribution

**Exhibit G**

Recognized Obligation Payment Schedule

**Exhibit H**

Summary of Balances Available for Allocation

**Exhibit I**

Management Representation Letter

## EXHIBIT A

**All assets transferred from the former redevelopment agency  
to the Successor Agency on February 1, 2012**

	Redevelopment Agency						Successor Agency February 1, 2012
	January 31, 2012						
	Debt Fund 230	Midtown Fund 337	South Stockton Fund 338	North Stockton Fund 340	Waterfront Fund 343	Strong Neighborhoods Fund 342	
<b>ASSETS</b>							
Cash and Investments	\$ (4)	\$ 217,857	\$ 267,911	\$ 127,787	\$ 477,899	\$ -	\$ 1,091,450
Cash with fiscal agents	14,412,114	-	-	-	-	9,411,501	23,823,615 (1)
Accounts and other receivables	-	-	12,016	-	-	-	12,016
Due from other funds	-	3,099,899	1,658,649	43,980	-	-	4,802,528 (2)
Prepays and other assets	-	-	13	-	-	-	13
Loans to other funds	-	-	-	-	500,000	-	500,000 (3)
Loans to property owners	-	47,928	20,361	99,973	538	-	168,800 (4)
<b>Total Assets</b>	<b>\$ 14,412,110</b>	<b>\$ 3,365,684</b>	<b>\$ 1,958,950</b>	<b>\$ 271,740</b>	<b>\$ 978,437</b>	<b>\$ 9,411,501</b>	<b>\$ 30,398,422</b>

Description of cash with fiscal agent	Amount
Reserve Fund Arena Project 2004	\$ 4,060,341
Strong Neighborhoods Reserve fund 2006	10,351,773
Strong Neighborhoods Project Fund 2006 Series A & B North Stockton	828,351
Strong Neighborhoods Project Fund 2006 Series A & B South Stockton	428,531
Strong Neighborhoods Project Fund 2006 Series A & B Midtown Stockton	4,786,780
Strong Neighborhoods Project Fund 2006 Series C	3,367,839
	<u>\$23,823,615 (1)</u>

(2) Loan to Redevelopment Agency Waterfront Fund

(3) Loan to internal service/workers compensation fund

Loan Description	Amount
BERMAN MARC	\$ 17,220
CASTELLANOS STEPHAN	3,470
DAVIS MERLIN	11,634
PRUNER ROLLAND	15,603
WILLIAMS MARK	5,792
RODGERS DONALD	14,569
THE HAN TSU LOH AND SUSANA LAW JUNG TRUST	80,000
CESENA RALPH	538
Accrued interest	19,974
	<u>\$ 168,800 (4)</u>

Note: The Low and Moderate Income Housing Fund is not included in the schedule.

**EXHIBIT B**

**State Controller's Office Asset Transfer Review Report  
for the period from January 1, 2011 through January 31, 2012**

# **STOCKTON REDEVELOPMENT AGENCY**

## **ASSET TRANSFER REVIEW**

### **Review Report**

*January 1, 2011, through January 31, 2012*



**JOHN CHIANG**  
California State Controller

August 2013



**JOHN CHIANG**  
*California State Controller*

August 5, 2013

Vanessa Burke, CFO  
City of Stockton/Successor Agency  
425 North El Dorado  
Stockton, CA 95202-1997

Dear Ms. Burke:

Pursuant to Health and Safety (H&S) Code section 34167.5, the State Controller's Office (SCO) reviewed all asset transfers made by the Stockton Redevelopment Agency to the City of Stockton or any other public agency after January 1, 2011. This statutory provision states, "The Legislature hereby finds that a transfer of assets by a redevelopment agency during the period covered in this section is deemed not to be in furtherance of the Community Redevelopment Law and is thereby unauthorized." Therefore, our review included an assessment of whether each asset transfer was allowable and whether the asset should be turned over to the Stockton Redevelopment Successor Agency.

Our review applied to all assets including, but not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payment of any kind. We also reviewed and determined whether any unallowable transfers of assets to the City of Stockton or any other public agencies have been reversed.

Our review found \$1,426,531 in unallowable asset transfers to the City of Stockton (Schedule 1). However, the Successor Agency Oversight Board approved Resolution No. OB 2012-10-10-06 on October 10, 2012, declaring \$65,000 in assets for a governmental purpose. Therefore, no further action is needed regarding these assets (Finding 2).

The outstanding assets totaling \$1,361,531 must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e) and 34181.

If you have any questions, please contact Steven Mar, Bureau Chief, Local Government Audits Bureau, at (916) 324-7226.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/kw

Vanessa Burke, CFO

-2-

August 5, 2013

cc: Bob Deis, City Manager  
City of Stockton  
Laurie Montes, Deputy City Manager  
City of Stockton  
Kurt Wilson, Deputy City Manager  
City of Stockton  
Elena Adair, Assistant Director, Administrative Services Department  
City of Stockton  
Jay Wilverding, Auditor-Controller  
San Joaquin County  
Richard J. Chivaro, Chief Legal Counsel  
State Controller's Office  
Steven Szalay, Local Government Consultant  
California Department of Finance  
Steven Mar, Chief, Local Government Audits Bureau  
Division of Audits, State Controller's Office  
Scott Freesmeier, Audit Manager  
Division of Audits, State Controller's Office  
Daniela Anechitoae, Auditor-in-Charge  
Division of Audits, State Controller's Office

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## Review Report

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# Asset Transfer Review Report

## Summary

The State Controller's Office (SCO) reviewed the asset transfers made by the Stockton Redevelopment Agency (RDA) after January 1, 2011. Our review included, but was not limited to, real and personal property, cash funds, accounts receivable, deeds of trust and mortgages, contract rights, and rights to payments of any kind from any source.

Our review found \$1,426,531 in unallowable asset transfers to the City of Stockton (Schedule 1). However, the Successor Agency Oversight Board approved Resolution No. OB 2012-10-10-06 on October 10, 2012, declaring \$65,000 in assets for a governmental purpose. Therefore, no further action is needed regarding these assets (Finding 2).

The outstanding assets totaling \$1,361,531 must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e) and 34181.

## Background

In January of 2011, the Governor of the State of California proposed statewide elimination of redevelopment agencies (RDAs) beginning with the fiscal year (FY) 2011-12 State budget. The Governor's proposal was incorporated into Assembly Bill 26 (ABX1 26, Chapter 5, Statutes of 2011, First Extraordinary Session), which was passed by the Legislature, and signed into law by the Governor on June 28, 2011.

ABX1 26 prohibited RDAs from engaging in new business, established mechanisms and timelines for dissolution of the RDAs, and created RDA Successor Agencies to oversee dissolution of the RDAs and redistribution of RDA assets.

A California Supreme Court decision on December 28, 2011 (*California Redevelopment Association et al. v. Matosantos*), upheld ABX1 26 and the Legislature's constitutional authority to dissolve the RDAs.

ABX1 26 was codified in the Health and Safety Code (H&S Code) beginning with section 34161.

In accordance with the requirements of H&S Code section 34167.5, the State Controller is required to review the activities of RDAs, "to determine whether an asset transfer has occurred after January 1, 2011, between the city or county, or city and county that created a redevelopment agency, or any other public agency, and the redevelopment agency," and the date on which the RDA ceases to operate, or January 31, 2012, whichever is earlier.

The SCO has identified transfers of assets that occurred after January 1, 2011, between the Stockton Redevelopment Agency, the City of Stockton, and/or other public agencies. By law, the SCO is required to order that such assets, except those that already had been committed to a third party prior to June 28, 2011, the effective date of ABX1 26, be turned over to the Successor Agency. In addition, the SCO may file a legal order to ensure compliance with this order.

## **Objectives, Scope, and Methodology**

Our review objective was to determine whether asset transfers that occurred after January 1, 2011, and the date upon which the RDA ceased to operate, or January 31, 2012, whichever was earlier, between the city or county, or city and county that created an RDA, or any other public agency, and the RDA, were appropriate.

We performed the following procedures:

- Interviewed Successor Agency personnel to gain an understanding of the Successor Agency operations and procedures.
- Reviewed meeting minutes, resolutions, and ordinances of the Stockton Redevelopment Agency and the City of Stockton.
- Reviewed accounting records relating to the recording of assets.
- Verified the accuracy of the Asset Transfer Assessment Form. This form was sent to all former RDAs to provide a list of all assets transferred between January 1, 2011, and January 31, 2012.
- Reviewed applicable financial reports to verify assets (capital, cash, property, etc.).

## **Conclusion**

Our review found \$1,426,531 in unallowable asset transfers to the City of Stockton (Schedule 1). However, the Successor Agency Oversight Board approved Resolution No. OB 2012-10-10-06 on October 10, 2012, declaring \$65,000 in assets for a governmental purpose. Therefore, no further action is needed regarding these assets (Finding 2).

The outstanding assets totaling \$1,361,531 must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d) and (e) and 34181.

Details of our findings are in the Findings and Orders of the Controller section of this report.

## **Views of Responsible Officials**

We issued a draft report on June 24, 2013. Vanessa Burke, Chief Financial Officer, responded by a letter dated July 12, 2013, disagreeing with Finding 1 and agreeing with Finding 2. The City's response is included in this final review report as an attachment.

**Restricted Use**

This report is solely for the information and use of the City of Stockton as the Successor Agency to the Stockton Redevelopment Agency, the Oversight Board of the Successor Agency, the City of Stockton, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record when issued final.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

August 5, 2013

# Findings and Orders of the Controller

**FINDING 1—  
Unallowable low  
and moderate  
income housing  
fund cash transfer  
to the City**

On February 8, 2011, by Resolution No. R11-003, the Stockton Redevelopment Agency (RDA) transferred \$1,361,531 in low and moderate income housing funds to the City of Stockton (City). The City then used the transferred funds to repay two loans to the California Housing Finance Agency (CalHFA). The City entered into the loans with the CalHFA in January 24, 2002, and April 4, 2003.

Because the RDA is not a party to the original agreements with CalHFA, the RDA is not obligated to make the loan payments on behalf of the City; therefore, this is merely a cash transfer from the RDA to the City.

Pursuant to Health and Safety (H&S) Code section 34167.5, any asset transfers by the RDA to a city, county, city and county, or any public agency after January 1, 2011 must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34117(d).

H&S Code section 34177(d) states that the Successor Agency should forward unencumbered balances of RDA funds to the county auditor-controller, including, but not limited to, the unencumbered balance of the Low and Moderate Income Housing Fund of a former RDA, for distribution to the taxing entities for allocation and distribution in accordance with H&S Code section 34188.

## Order of the Controller

Based on H&S Code section 64167.5, the City is ordered to turn over the assets described above to the Successor Agency. The Successor Agency is directed to properly dispose of these assets in accordance with H&S Code sections 34177(d).

## City of Stockton's Management Response

Management disagrees with this finding. SCO auditors were onsite and held an exit conference for the RDA Asset Transfer Review on December 20, 2012. This item was not an issue and did not result in a finding during the original review. As a result of SCO staff turnover, a second review was conducted and City staff was required to resubmit documentation several months after the initial review was completed. We were not aware this transaction was in question and would have submitted supporting documentation had it been brought to our attention beforehand.

On February 8, 2011, City Council by Resolution No. 11-0030 authorized a transfer from RDA Low and Moderate Income Housing Funds (Low/Mod Funds) for the repayment of the two loans in the amount of \$1,361,531. The actual repayment including principal and interest totaled \$1,261,913.52. The payment was made directly from Low/Mod Funds to repay two HELP loans from the California Housing Finance Agency (CalHFA), a State of California agency. This loan was made by CalHFA to the City of Stockton as the borrower. However, the only way the loan could have been a valid agreement under article XVI, section 18 of the state constitution is if it were payable from a special

fund such as the Low and moderate income housing fund. The general fund of the city could not be obligated without 2/3 voter approval. This was not the intent of the loan as the repayment source was a pledge of low/mod program income, which is in fact how the city repaid the loan.

As background, the HELP funds were only used for low and moderate income housing projects. Therefore, Low/Mod Funds were an appropriate source of repayment. In fact, Low/Mod Funds were listed as the repayment source in the original loan applications submitted to CalHFA and in the staff reports presented to City Council on September 18, 2001 and September 24, 2002. In addition, the loan agreement states that "the source of funds utilized for repayment shall not be limited to any particular asset(s) of the Borrower." This comports with the application and staff report, as RDA funds, not City funds, were the intended source for repayment. This loan has been paid in full to CalHFA, a State of California Agency. The City requests that the SCO revise the report and remove the "order".

#### SCO's Comment

The City disagrees with the finding and stated in their response that \$1,261,913.52 (principal and interest) was made directly from Low/Mod Funds to repay two HELP loans from the California Housing Finance Agency (CalHFA). The City claimed that in loan applications and staff reports, RDA funds, not City funds, were the intended source for repayment for these loans.

However, the City did not provide any evidence that this was an RDA obligation. Also, even if the RDA funds were the intended source, we found that the City paid off the CalHFA loans prior to the maturity dates, which is a violation H&S Code section 34167(a), which states:

This part is intended to preserve, to the maximum extent possible, the revenues and assets of redevelopment agencies so that those assets and revenues that are not needed to pay for enforceable obligations may be used by local governments to fund core governmental services including police and fire protection services and schools. It is the intent of the Legislature that redevelopment agencies take no actions that would further deplete the corpus of the agencies' funds regardless of their original source. All provisions of this part shall be construed as broadly as possible to support this intent and to restrict the expenditure of funds to the fullest extent possible.

Finally, the City is correct that this issue was not discussed at the December 20, 2012 exit interview. However, the auditors made inquiries to City staff regarding this issue in early June 2013, prior to the June 18, 2013 exit conference. In addition, the City was provided an opportunity to respond prior to the issuance of the SCO draft report and after using the 10-day comment period.

The finding remains as stated.

**FINDING 2—  
Unallowable  
transfer to the City**

On June 7, 2011, the RDA transferred properties for a sanitary pump station, and land known as the Mormon Slough Parkway, by Resolution No. R11-010. The City accepted the transferred properties by Resolution No. 11-0133. In the staff report dated June 7, 2011, the estimated value of the property is between \$59,700 and \$65,000.

Pursuant to H&S Code section 34167.5, any asset transfers by the RDA to a city, county, city and county, or any other local public agency after January 1, 2011, must be turned over to the Successor Agency for disposition in accordance with H&S Code sections 34177(d), (e), and 34181(a).

However it appears that these assets also may be subject to the provisions of H&S Code section 34181(a). H&S Code section 34181(a) states, in part:

The oversight board shall direct the Successor Agency to do all of the following:

- (a) Dispose of all assets and properties of the former redevelopment agency that were funded by tax increment revenues of the dissolved redevelopment agency; provided however, that the oversight board may instead direct the successor agency to transfer ownership of those assets that were constructed and used for a governmental purpose, such as roads, school buildings, parks, and fire stations, to the appropriate public jurisdiction pursuant to any existing agreements related to the construction or use of such an asset . . . [emphasis added]

**Order of the Controller**

Based on H&S Code section 64167.5, the City would have been ordered to turn over the assets described above to the Successor Agency. The Successor Agency would have been directed to properly dispose of these assets in accordance with H&S Code sections 34177(d), (e), and 34181(a).

However, the Successor Agency Oversight Board approved Resolution No. OB 2012-10-10-06 on October 10, 2012, declaring these assets as for a governmental purpose. Therefore, no further action is needed regarding these assets.

**City of Stockton's Management Response**

Management concurs with the Order of the Controller. Management had previously identified prior to the SCO audit that the properties transferred to the City fall within the guidelines of H&S Code section 34181(a); the assets are for a governmental purpose. Accordingly, the original transfer was completed prior to RDA dissolution on June 7, 2011, and reauthorized by the Oversight Board to the Stockton Successor Agency on October 10, 2012, by Resolution No. OB 2012-10-10-06. No additional action will be taken.

**SCO's Comment**

The City agrees with the finding.

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**Schedule 1—  
RDA Assets Transferred to  
the County of Stockton  
January 1, 2011, through January 31, 2012**

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Low and Moderate Income Housing Fund Cash	\$ 1,361,531 <sup>1</sup>
Sanitary Pump Station and Land to Update Pump Station	<u>65,000 <sup>2</sup></u>
	<u>\$ 1,426,531</u>

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<sup>1</sup> Must be returned to the Successor Agency.

<sup>2</sup> Not subject to be returned to the Successor Agency.

**Attachment—  
City's Response to Draft Review Report**

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## CITY OF STOCKTON

## ADMINISTRATIVE SERVICES

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July 12, 2013

Jeffrey V. Brownfield, Chief, Division of Audits  
Local Governments Audit Bureau  
California State Controller's Office  
Division of Audits  
P.O. Box 942850  
Sacramento, CA 94250

**RE: CITY OF STOCKTON – MANAGEMENT RESPONSES**

The California State Controller's Office (SCO) audited the City of Stockton's Administrative and Internal Accounting Controls for the period of July 1, 2010 through June 30, 2011, Special Gas Tax Street Improvement and Traffic Congestion Relief Funds for the period of July 1, 2004 through June 30, 2011, and Asset Transfers by the Redevelopment Agency made after January 1, 2011. Below is the City of Stockton's management response to the findings in the State Controller's reports dated June 24, 2013.

**Administrative and Internal Accounting Controls**

**Finding 1 - The City Auditor's Office was ineffective and inefficient**

**The City of Stockton's Management response:**

Management agrees with this finding though it is not new information. It was the City Manager that asked the City Auditor's Office to conduct a more robust and improved risk assessment process. It was identified by new management as one of the City's 37 Strategic Initiatives.

Similar findings were issued by the City's external financial auditors, Maze & Associates, in November 2012 and then by the San Joaquin County Grand Jury in May 2013 after new management brought this to their attention. With the departure of the City Auditor and Assistant City Auditor in September 2012, the City was presented with an opportunity to consider other options for staffing the internal audit function. The City Attorney has provided an opinion that under the City's charter the City Auditor function can be performed by a contractor appointed by the City Council. The contractor would report directly to the City Council through the Council Audit Committee. After researching the different options, the City Manager recommended the City Council on October 9, 2012, approve a request for proposal to recruit an outside audit firm to conduct an Internal Control and Risk Assessment audit. The results of that audit will be used to determine a work plan to address the high risk areas needing further scrutiny or they might conduct further assessments. The Stockton selected audit firm was appointed as the Interim City Auditor through the duration of the risk assessment and internal control audit.



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On March 5, 2013, the City Council approved a contract with Moss Adams, LLP, who possesses extensive experience providing local government internal audit services and audit services. The contract provides the City with the option to either continue the contract after the first six month period or to terminate the contract upon completion of the risk assessment and internal control audit. Following completion of this initial 6 month project, staff will work with the Audit Committee and City Council in preparing an analysis of performance under this arrangement and recommend future direction of the internal audit function. The City has not eliminated the Office of the Auditor as the recommendation by the SCO appears to indicate.

Moss Adams, LLP first met with the Council Audit Committee on April 9, 2013 and again on June 11, 2013 and July 8, 2013. They emphasized the importance of regular interactions. Protocols will include monthly meetings with the Council Audit Committee, quarterly meetings with the City Council, and status reports will be provided at each of these meetings which conform to practices recommended by the Institute of Internal Auditors.

**Finding 2 - Inaccurate accountability and oversight over fiscal management functions at the operating departments because of decentralization**

**The City of Stockton's Management response:**

Management partially agrees with this finding though these findings are not new information to the City. Management does disagree with the SCO recommendation to centralize all fiscal management functions for a large local government like the City of Stockton. In contrast, decentralization can provide improved efficiencies and accountability when the financial measures are monitored and performance tracked for operations. The removal of the management of the fiscal function as recommended serves to take away substantial information needed at that division level to understand the business needs and operations of the City. What is required is improvement to the financial systems and monitoring tools that enable the process rather than a transfer to a centralized process. Plans are already underway and tools are in development in various areas as follows:

*Contract Process:*

The City follows the current City's Administrative Directive on Management of Contracts No. CONTRACTS 25.2, which assigns responsibility for administration and monitoring of the contracts to individual departments. Nevertheless, management is aware of improvements needed for the citywide contract management function and has taken initial steps in securing a contract to reengineer the purchasing and supply chain management functions. The Administrative Services Department (ASD) is in the process of identifying a resource/vendor that will, among other things, evaluate the City's contract management process, procurement process, purchasing policies/procedures, staffing skills and levels; identify deficiencies and rewrite outdated purchasing policies. After the evaluation is complete, staff will evaluate the options of purchasing contract management software to improve monitoring and provide greater accountability and visibility. This software purchase was previously identified by management in the Citywide Technology Strategic Plan adopted by Council in June 2012.

The City's current Administrative Directive No. CONTRACTS 25.1.b offers a choice of four methods of procurement: purchase order, confirming purchase order, blanket purchase order and authorization for payment. Authorization for payment (AFP) can be used to

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expedite payment of claims for goods and services provided they fall within one of twenty one (21) allowable categories. Those categories are:

1. Dues	11. Payments from assessment or trust funds
2. Newspapers and publications	12. Escrow deposits or payments
3. Utilities	13. Loans and grant payments and related disbursements
4. Contingency fees and commissions	14. Authorized outside legal costs and settlements
5. Transportation and freight charges	15. Payments to City Departments
6. Insurance and bond requirements	16. Payments required by Federal, State or local law
7. Property taxes, annual assessment fees	17. Awards
8. Group insurance, employee benefits	18. Postage and mail delivery services
9. Payroll related disbursements	19. Maintenance costs of City owned property
10. Petty cash reimbursements	20. Lease payments
	21. Construction and professional services agreements and other authorized agreements

The Administrative Directive does not have requirement for claims to be "routine" when using authorization for payment option. In addition, there is no specific dollar threshold that is applied to the authorizations for payment. The purpose of this policy is to expedite and improve efficiencies when processing payments that may already be under contract, which may or may not include City Council approval depending on the dollar purchase threshold, or are routine, high volume, low dollar purchases. The SCO's characterization that the AFP process is used to circumvent the purchasing thresholds is not the intent of the policy, however management had already identified the misuse in prior years. For example, the temporary agency contracting problem was identified by the City Manager himself as part of his review of all contracts and City Council agenda items. This issue brought to light the AFP misuse. This is not new news. Where the SCO identified the \$70.0 million in payments to law firms, investment firms, and developers, these payments meet one of the twenty-one categories above and are in compliance with the City's policy.

The City did document misuse of the AFP process. Now, Accounts Payable reviews each disbursement request for completeness of information: approval signatures, correct account number, acceptable "Authorization for Payment" (AFP) category, and whether disbursement amount falls within Council limit. All AFPs with missing/inappropriate information are returned to the departments for correction. However, non-compliance surrounding inappropriate category use is submitted to Purchasing for second round internal control and compliance determination. During the period from July through September 2011, 667 AFPs were identified to be non-compliant. After these process improvements were implemented the number of non-compliant AFPs was reduced from 667 to just six when compared to the same period the following year (July through September 2012). Currently all non-compliant AFPs are returned to the departments for correction to the appropriate method of procurement before payment is made.

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*City's Grant Management System:*

The City currently has a hybrid model with certain functions centralized while others are decentralized. Since as early as 2009, the City Manager's Office has designated a Program Manager to serve as the central point of contact for Federal, State, and private grants. This function includes providing departments with technical assistance and advice in preparing and submitting grant applications. The function also includes reviewing departmental Notice of Intent Memorandums seeking approval of the City Manager, to ensure that potential grant applications meet the goals and objectives set forth by the City Council. The Program Manager also provides assistance to staff in the reporting of grant performance measurements. The City has been very successful in competing for grants. We do not see the City "missing opportunities".

Given the City's 43% reduction of non-safety personnel, the establishment of a more centralized grants administration process would require additional funding. This will be evaluated after the emergence from bankruptcy at a time when additional resources may become available to the City to provide more assistance in the City's grant management function.

With respect to financial reporting issues, we agree with this finding though this is not new information and was reported by our auditors in the Single Audit and the Memorandum of Internal Controls. To prevent this problem from occurring in the future the City issued in December 2012 an amended Grant Administration Guideline in Police Fiscal Affairs which includes a reconciliation of the draw down claims to the general ledger and a second level of review of those claims. Additional training on reconciliations is being given and reviews are being performed prior to submission of the reports. In Public Works, a review process has been established to ensure accuracy of reimbursement requests.

*Fleet Management:*

Improvements to the management and utilization of the City's fleet have been a recognized priority for the City in the past two years and were identified first by the City's own Internal Auditors in September 2012. That report confirmed the City's centralized fleet management had not performed at an optimum level in past years and oversight historically has not been strong.

The State Controller's audit finding inaccurately characterized the City's internal audit of the Fleet as stating that the Fleet Division has (present tense) no authority or input over the fleet management practices of the operating divisions. While the City's internal audit did bring to light the question of level of authority in the past, it is very clear from the Management Response to that audit that the City Manager's Office has the complete expectation that the Fleet Division has the responsibility and authority to manage the City's fleet division according to industry and professional standards. The implementation of the management responses to this internal audit has taken important steps to increasing the accountability of operating departments for their vehicles and fleet assets.

In addition, the City Manager felt the City Auditor did not go far enough. So we took it upon ourselves to contract for an independent fleet management and utilization assessment prior to the SCO audits. Management Partners, Inc. over the past six months, has conducted an exhaustive study of our fleet function and developed a series of recommendations and

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implementation plan that will dramatically increase efficiencies and centralized accountability in fleet operations. The implementation plan will create a fleet operation that is current with best practices in the industry. The implementation plan also calls for the reduction of 39 vehicles in the fleet to optimize utilization. All other vehicles and vehicle assignments have been thoroughly reviewed for appropriateness. The estimated cost savings for this project, that the City self-initiated, total nearly half a million dollars annually. The report outlining this assessment and recommendations was published on July 2, 2013 as advance material for the July 9, 2013 City Council meeting.

**Finding 3 - Inability to produce financial statements and financial transaction reports on a timely basis**

**The City of Stockton's Management response:**

Management agrees with this finding though it is not new information and actions are already in place to address these late reports. As was previously reported to City Council, additional responsibilities and staffing shortages in Administrative Services, the AB 506 process, the chapter 9 bankruptcy filing and discovery requests, a lengthy court battle on eligibility, RDA wind down, and the five State Controller's Audits all collectively created competing priorities. As our external auditor stated in their written report in December 2012, "the department remains under intense strain and pressure to respond" to these demands. However, these multiple demands were met by staff. This was done in spite of our requests to the SCO to delay their audits due to these enormous burdens. Instead of honoring our request to delay the audits, the SCO chose to audit the City and add additional and costly burden at an inopportune time.

Factors that have affected our timely financial reporting were accuracy of prior year data, staffing turnover, employee performance issues, archaic civil service rules, increased workload due to the information requests and responses to the bankruptcy demands, five SCO audits initiated at the same time, and an antiquated computer system that is costly to replace. Disclosure of financial information in the State mandated reports is typically released prior to the audited financials, but caution is necessary as they can be relied upon by the financial market and bondholders. Rather than disclose inaccurate financial data in the State mandated reports at such a critical time in the City's history that could be misused or misunderstood, the priority was to get the City's fiscal house in order and prepare accurate and reliable audited financials. This came at a cost of timeliness.

The CFO and Assistant Director of Administrative Services have begun the recovery process and are developing plans for the future that includes evaluating staffing needs, technological capabilities, and accountability for timely financial reporting. We have established a schedule to bring the City's audited CAFR for the Fiscal Years 2011-12 and 2012-13 back on time by no later than the end of calendar year 2013. We have added a new Accounting Supervisor position in the 2013/14 Adopted Budget to assist with the backlog of work. We have hired a new audit firm to assist with the filing of the delinquent State mandated reports from FY 2010-11 and FY 2011-12. This change will aide in filing the Annual Street Report for FY 2012 as early as this month.

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The proposed schedule for the audits is as follows:

FY 2012 Audit	FY 2013 Audit	Audit Tasks
Jun – 13	Jun – 13	Award of Contract
Jun – 13	Jun – 13	Interim Audit Procedures
Aug – 13	Sep – 13	Year End Audit Procedures
Aug – 13	Oct – 13	Issue Draft Audit Reports
Sep – 13	Dec – 13	Final Audit Reports, Financial Statements, Management Letter, and Single Audit Reports Delivered

#### Finding 4 - Cash impairment in the City's investment pool

##### The City of Stockton's Management response:

Management disagrees with the Finding. The SCO in their analysis failed to include funds that are unrestricted that are included in the General Fund for the Comprehensive Annual Financial Report (CAFR) but segregated in the accounting system for tracking purposes. These funds consist of the Library, Recreation, Entertainment Venues, and other auxiliary fee and general funded operations. When including these funds the general fund cash position is reported as follows:

**TABLE A**

Month	Fiscal Year		
	FY 2008-09 General Fund	FY 2009-10 General Fund	FY 2010-11 General Fund
July	15,932,712	(12,755,358)	8,414,340
August	9,499,858	17,756,413	4,295,118
September	1,451,377	19,734,058	(1,039,616)
October	3,380,078	13,040,522	(7,960,241)
November	2,320,036	7,178,133	(11,600,274)
December	7,211,211	15,702,056	(5,967,707)
January	9,450,199	17,654,537	(7,840,504)
February	22,928,602	25,219,403	1,229,409
March	19,722,838	29,224,060	(613,797)
April	23,889,817	30,280,001	153,760
May	23,640,387	28,699,751	(2,319,246)
June	11,496,667	11,406,061	12,977,884

In addition, in FY 2009-2010, the SCO failed to consider that the City had access and utilized a \$32,180,000 2009 CSCDA Tax Revenue Anticipation Note (TRAN) to fund cash flow deficiencies. In the table below, the months in which the corrected general fund cash deficits arose, there was sufficient cash in the TRAN, the borrowing funds established per accounting policy (e.g. self-insurance funds) that was sufficient to cover any shortfall in the general fund. In addition, in most months the Gas Tax Fund had a cash deficit and wouldn't have been a fund to borrow from but was borrowing in reverse from the General Fund to cover cost incurred prior to receipt of the apportionments from the State of California. The Gas Tax Fund cash position as a percentage of the total restricted cash position is less than

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1% on average and would not be impaired and is a fund of last resort not a fund of first resort.

Based on the review of the Article XIX of the California Constitution, Streets and Highway Code Sections 2100-2128.1 and Sections 2150-5157, and Guidelines Relating to Gas Tax Expenditures for Cities and Counties issued by the State Controller's Office in May 2004, none of the publications discuss impairment of cash in the pooled cash system. In addition, there is no guidance about whether deficit cash balances in funds participating in the pooled cash arrangement create "impairment".

The City's policy is to use City's Workers Compensation and General Liability Internal Service Funds as the lending funds to other City funds with negative cash position at the end of each fiscal year as reported in Note 3 to the City's CAFR. The same policy is applied during any given fiscal year. The monthly cash balance reports for all City funds covering fiscal years 2008-09, 2009-10 and 2010-11 that were provided for your review, show that there were sufficient cash balances in the Workers' Compensation and General Liability Internal Service Funds every month in which General Fund cash balance went negative, except for November 2011. However, in that same month both the Gas Tax Fund and Traffic Congestion Relief Fund cash balances were negative, making it impossible for the General Fund to borrow money from them.

In reviewing the month end cash balances of the gas tax/federal funds as compared to the restricted funds in total and applying the established City policy, the SCO has leapt to an incorrect conclusion. Our analysis shows that the gas tax funds, as a percentage to the total of all other restricted funds, during the period of the audit are insignificant to be a borrowing fund and in fact are a borrowing fund themselves. See Table B below.

The City carefully monitors its available unrestricted fund balances to assure that there is no draw on the restricted funds cash that the City is not able to repay by the end of the fiscal year. The City actually sought bankruptcy protection because of its general fund insolvency and to avoid any chance that the general fund would not be balanced and begin implicitly borrowing from restricted funds.

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TABLE B

	General Fund		Traffic Congestion		All	
	Totals	Totals	Relief Fund	Restricted Fund	% of All Restricted Funds	
			Totals	Totals	Gas Tax	TCRF
Jul-08	15,932,712	199,500	27,443	280,237,562	0.071%	0.010%
Aug-08	9,499,858	197,704	(507)	251,844,293	0.079%	0.000%
Sep-08	1,451,377	1,414,918	(43,460)	250,241,603	0.565%	-0.017%
Oct-08	3,380,078	592,754	641,495	239,820,082	0.247%	0.267%
Nov-08	2,320,036	585,628	460,568	224,187,668	0.261%	0.205%
Dec-08	7,211,211	1,381,983	174,928	240,067,960	0.576%	0.073%
Jan-09	9,450,199	536,417	205,974	242,785,314	0.221%	0.085%
Feb-09	22,928,602	536,982	66,248	230,707,210	0.233%	0.029%
Mar-09	19,722,838	537,253	(532,248)	217,117,725	0.247%	-0.245%
Apr-09	23,889,817	224,495	(158,979)	226,183,694	0.099%	-0.070%
May-09	23,640,387	225,103	(160,194)	239,539,563	0.094%	-0.067%
Jun-09	11,496,667	2,182,944	(160,857)	256,420,068	0.851%	-0.063%
Jul-09	(12,755,358)	(127,952)	422,373	244,953,050	-0.052%	0.172%
Aug-09	17,756,413	(562,012)	422,373	220,645,661	-0.255%	0.191%
Sep-09	19,734,058	(707,045)	423,991	228,142,310	-0.310%	0.186%
Oct-09	13,040,522	(635,138)	(368,440)	230,964,027	-0.275%	-0.160%
Nov-09	7,178,133	112,710	(1,627,909)	221,399,297	0.051%	-0.735%
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Oct-10	(7,960,241)	(619,399)	(60,550)	217,309,059	-0.285%	-0.028%
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Dec-10	(5,967,707)	(271,438)	(140,598)	209,296,338	-0.130%	-0.067%
Jan-11	(7,840,504)	(13,753)	(141,552)	220,681,557	-0.006%	-0.064%
Feb-11	1,229,409	271,661	(141,698)	214,154,905	0.127%	-0.066%
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May-11	(2,319,246)	908,890	(142,483)	202,010,258	0.450%	-0.071%
Jun-11	12,977,884	766,167	-	222,920,565	0.344%	0.000%

#### Finding 5 - Inadequate City Council oversight over contracting

##### The City of Stockton's Management response:

Management disagrees with the finding.

##### Fuel Contract:

We disagree with this finding. The City has been following the current policy for fuel purchases and approved delegation of authority. City Council Resolution #36,851 dated December 17, 1979, which authorized and directed the City Manager to enter into agreements with the fuel suppliers and authorize payments as may be necessary to continue City's fuel supply. Staff utilized competitive quotes from fuel suppliers as the way to get best prices. Recognizing that following an old policy may not be a best practice, in 2012 staff followed the City's contracting guidelines by bidding the fuel contract out, which resulted in the change of fuel vendor. This was originally brought to our attention in an

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internal audit from September 2012. In this process, the contract was subjected to City Manager, Risk Manager, Chief Financial Officer and City Attorney's review. The fuel contract is now rebid annually.

*Innoprise/HTE:*

We do not agree with your finding. The SCO Audit findings states City Staff placed on the consent agenda the request to forgo the competitive bidding process for contracting with Innoprise to support the SunGard/HTE financial systems. The audit concludes the justification to forgo (waive, actually) the competitive bidding process for these services was not supported. The audit provides no facts or findings to support that conclusion. We disagree with the conclusion.

The overall goal of the project was to migrate from the use of an outdated HTE/SunGard system to the newer Innoprise systems. This plan involved replacing the most needed systems first with full replacement over the six-year term.

Based on the best information available to staff at the time, Innoprise Inc., was the only vendor with the expertise necessary to migrate the data from the HTE/SunGard software into a new system while continuing to maintain the old and new software. This expertise was uniquely available to Innoprise because the programming staff at Innoprise were former employees of HTE/SunGard. Moreover, based on the information in the staff report, the City Council made the necessary findings to warrant waiving the competitive bidding process in this circumstance. That is what the City Charter requires.

The SCO suggests that contracts where competitive bidding is waived should be placed on the regular agenda rather than the consent agenda. That would serve no purpose but to unnecessarily lengthen City Council meetings or take away from other policy matters. The justification to waive competitive bidding is either present or is not at the time the decision to waive the requirement is presented to City Council. If the City Council concludes the staff report is lacking in evidentiary support to justify waiving the competitive bidding requirements, it can make that determination regardless of where the item is on the agenda. They retain the right to "pull" a consent item and specifically speak to it. If the City Council concludes the staff report is lacking in evidentiary support subsequent to the bid process and upon approval of the contract, it can make that determination regardless of where the item is on the agenda.

Nevertheless, to insure the exceptions to the formal bid process are granted in only the justifiable situations, all staff reports, including those requesting an exception to the competitive bidding requirement are reviewed to ensure proper justification is provided.

**Finding 6 - Inadequate City Council oversight over payments**

**The City of Stockton's Management response:**

Management partially agrees with this finding though this is not new information. Contracts with a single vendor over the City Manager's spending threshold of \$30,224 do go before the Council. Staff reports are provided and discussions are held in a public setting to answer all questions. We agree that the Authorization for Payment (AFP) and contract monitoring process do need stronger controls. Please see response and plan in Finding 2.

Management has already corrected the issue with the temporary agency contracts that had expired. On April 26, 2012, Council ratified the expenditures and management presented a

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corrective action plan to prevent future occurrences of lapsed contracts. Nevertheless, management is aware of improvements needed for the citywide contract management function. Administrative Services Department is in the process of identifying a resource/vendor that will, among other things, evaluate the City's contract management process, procurement process, purchasing policies/procedures, staffing skills and levels; identify deficiencies and rewrite outdated purchasing policies. After the evaluation is complete, staff will evaluate the options of purchasing contract management software to improve monitoring and provide greater accountability and visibility.

**Finding 7 - Lost opportunity to claim State/Federal funds to offset General Fund Expenditures**

**The City of Stockton's Management response:**

Management partially agrees with this finding though it is not new news and is related to grants awarded prior to June 2011. We agree improvements need to be implemented in the development and application of indirect costs. We disagree on the lost opportunities. This finding was previously reported in the Memorandum on Internal Control and staff responses for corrective action were provided. We brought this compliance issue to the attention of our audit firm at the beginning of their audit and asked for additional guidance in this area. We are aware of the OMB A-87 requirements and the recovery of indirect costs. The City is working with its Indirect Cost Plan consultant, City's Internal Auditor, budget, Human Resources and others in order to improve the activity based costing currently used by the City. Information on the specific programs cited by the SCO are as follows:

Public Works Department: We are not convinced that the City left \$1.5 million on the table. It is not appropriate to equate City of Stockton to some generic rate from a survey of other cities without ensuring that those cities utilize similar cost allocation structures and activity charges. Some cities spend less time identifying direct costs and rely on a higher indirect recovery. It is misleading to say that the City's indirect cost reimbursement of 3.42% is significantly understated when City staff directly charge their time to projects which is already taken into account in the City's cost allocation plan.

Police Department: At the time the SCO Audit staff was performing their audit, grant funds were still being utilized. To this end, the actual unspent grants identified in the SCO Audit is \$60,775 not the stated \$224,683. The primary reason that the City of Stockton was not able to fully expend the \$60,775 was a direct result of the City of Stockton's Police Department experiencing a mass "exodus" of seasoned police officers as a direct result of the City's fiscal crisis which lead to reduction in salary and benefit levels; thus, making it extremely difficult to staff the activities supported by the grants. The four federal grants awarded to the City were mostly used to fund overtime expenses directly related to the delivery of the main objectives of the grant requirements such as the DUI enforcements, seat belt enforcement, gang prevention missions, etc.

**Finding 8 – Lack of written procedures for the handling of cash from parking meters**

**The City of Stockton's Management response:**

Management disagrees with this finding. The City had written procedures for Parking Meter Collections. Staff revised the written procedures in October 2008 and July 2013. In addition, detailed written procedures, effective 2009, are maintained and followed by the City's parking meter collection vendor Universal Protection Services. These procedures are detailed to include the handling of cash such as checking out the deposit bags, labeling the

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bags, how far to fill the bags, where to obtain and return the bags, how many individuals are present at the collection point among other procedures. We believe the SCO had the ability to review these procedures as part of our contract with All Phase Security, Inc. and our internal policy.

Management is focused on continuous improvement to ensure all cash handling procedures from departments are current and periodically reviewed. As an example in May 2013, the Administrative Services Department (ASD) conducted a review of the City's cash handling policy and procedures and a comprehensive revision of them was made. This was implemented in ASD as a pilot program. It will be fully implemented citywide in the 2nd quarter of FY 2013-2014 along with unannounced cash receipt audits for the city's thirty nine (39) cash handling locations to ensure compliance with the new procedures. ASD will continue to update the City's procedures on a bi-annual basis. Since FY 2010-2011, ASD has been working with the Human Resources Department to conduct citywide cash handling training classes and certification for over 70 employees. Additional trainings will be provided to the rest of the group in the 2nd quarter of FY 2013-2014.

**Special Gas Tax Street Improvement Fund Audit**

**Finding 1 – Negative Interest charged – Gas Tax Fund**

**The City of Stockton's Management response:**

Management disagrees with this finding. The reference made in the Audit Findings and Recommendations to the Streets and Highways Code section 2101 does not preclude negative interest as an eligible expenditure per the Streets and Highways Code. In fact, the code indicates that interest from investment of the funds should be deposited into the fund on a rational and equitable basis. As disclosed in Table B, the fund typically runs negative, which is a cost to the City for the operation of the fund due to delay in the receipt of appropriations as compared to spending patterns. We believe that the model is equitable and rational and supports the charges to the fund.

In addition, upon review of the Guidelines Relating to Gas Tax Expenditures for Cities and Counties (Guidelines), issued by the California State Controller, May 2004, negative interest (interest charge) is not cited as one of the ineligible expenditures.

Section 2113 of the Streets and Highways Code states that "Interest received by a city from the investment of money in its special gas tax street improvement fund shall be deposited in the fund and shall be used for street purposes". Reference is also made in the Guidelines under Special Accounting Requirements for Cities that interest received by a city from the investment of money in its Special Gas Tax Street Improvement Fund shall be deposited in the fund and shall be used for street purposes. In the SCO supporting analysis, interest earnings activities in the Gas Tax Fund were reviewed from FY 2005 through FY 2011. It appears the SCO selectively chose only months in which this fund was allocated negative earnings to calculate the amount, while failing to take into account that these are entirely offset with positive allocation months during those same periods to arrive at the \$10,686 amount of negative interest allocation. Overall during the audit period from FY 2005 through 2011, on an annual basis the Gas Tax Fund received a net positive interest allocation of \$179,152.

For the pooled cash concept to work, funds must be charged appropriately when they rely on other funds for cash flow and be credited fairly when the funds contribute to interest

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earnings. This is accomplished by following the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Prior to July 1, 2011, interest income earned on pooled cash and investments was allocated on a monthly basis to the various funds based on average daily cash balances and a fair market value at year end. Effective July 1, 2011, the City changed its accounting policy and method to a quarterly allocation of accrued interest and fair market valuation adjustments on the basis of average daily cash balances. This change was made on a prospective basis.

The City's position is that the Gas Tax Fund received its equitable pro-ration of interest earned, positive or negative, and is used for street purposes.

**Finding 2 – Negative interest charged – TCRF**

**The City of Stockton's Management response:**

Management disagrees with this finding. The reference made in the Audit Findings and Recommendations to the Streets and Highways Code section 2101 does not state that negative interest is not an eligible expenditure per the Streets and Highways Code. Please see responses to Finding 1.

**Finding 3 – Impairment of Cash**

**The City of Stockton's Management response:**

Management disagrees with the Finding. The SCO in their analysis failed to include funds that are unrestricted that are included in the General Fund for the Comprehensive Annual Financial Report (CAFR) but segregated in the accounting system for tracking purposes. These funds consist of the Library, Recreation, Entertainment Venues, and other auxiliary fee and general funded operations.

When including these funds the general fund cash position is reported as follows:

Month	Fiscal Year		
	FY 2008-09 General Fund	FY 2009-10 General Fund	FY 2010-11 General Fund
July	15,932,712	(12,755,358)	8,414,340
August	9,499,858	17,756,413	4,295,118
September	1,451,377	19,734,058	(1,039,616)
October	3,380,078	13,040,522	(7,960,241)
November	2,320,036	7,178,133	(11,600,274)
December	7,211,211	15,702,056	(5,967,707)
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March	19,722,838	29,224,060	(613,797)
April	23,889,817	30,280,001	153,760
May	23,640,387	28,699,751	(2,319,246)
June	11,496,667	11,406,061	12,977,884

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In addition, in FY 2009-2010, the SCO failed to consider that the City had access and utilized a \$32,180,000 2009 CSCDA Tax Revenue Anticipation Note (TRAN) to fund cash flow deficiencies. In the table below, the months in which the corrected general fund cash deficits arose, there was sufficient cash in the TRAN, the borrowing funds established per accounting policy (e.g. self-insurance funds) that was sufficient to cover any shortfall in the general fund. In addition, in most months the Gas Tax Fund had a cash deficit and wouldn't have been a fund to borrow from but was borrowing in reverse from the General Fund to cover cost incurred prior to receipt of the apportionments from the State of California. The Gas Tax Fund cash position as a percentage of the total restricted cash position is less than 1% on average and would not be impaired and is a fund of last resort not a fund of first resort.

Based on the review of the Article XIX of the California Constitution, Streets and Highway Code Sections 2100-2128.1 and Sections 2150-5157, and Guidelines Relating to Gas Tax Expenditures for Cities and Counties issued by the State Controller's Office in May 2004, none of the publications discuss impairment of cash in the pooled cash system. In addition, there is no guidance about whether deficit cash balances in funds participating in the pooled cash arrangement create "impairment".

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The City carefully monitors its available unrestricted fund balances to assure that there is no draw on the restricted funds cash that the City is not able to repay by the end of the fiscal year. The City actually sought bankruptcy protection because of its general fund insolvency and to avoid any chance that the general fund would not be balanced and begin implicitly borrowing from restricted funds. To emphasize the matter further, the City has been vigorously defending its position in the bankruptcy court of not using restricted funds cash for the operations of the City's General Fund.

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TABLE B

	General Fund		Traffic Congestion		All		% of All Restricted Funds	
	Totals		Relief Fund		Restricted Fund		Gas Tax	
	Totals	Totals	Totals	Totals	Totals	Totals	Gas Tax	TCRF
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### Redevelopment Agency

#### **Finding 1 – Unallowable low and moderate income housing fund transfer to the City of Stockton**

##### **The City of Stockton Management response:**

Management disagrees with this finding. SCO auditors were onsite and held an exit conference for the RDA Asset Transfer Review on December 20, 2012. This item was not an issue and did not result in a finding during the original review. As a result of SCO staff turnover, a second review was conducted and City staff was required to resubmit documentation several months after the initial review was completed. We were not aware this transaction was in question and would have submitted supporting documentation had it been brought to our attention beforehand.

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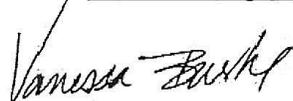
On February 8, 2011, City Council by Resolution No. 11-0030 authorized a transfer from RDA Low and Moderate Income Housing Funds (Low/Mod Funds) for the repayment of the two loans in the amount of \$1,361,531. The actual repayment including principal and interest totaled \$1,261,913.52. The payment was made directly from Low/Mod Funds to repay two HELP loans from the California Housing Finance Agency (CalHFA), a State of California agency. This loan was made by CalHFA to the City of Stockton as the borrower. However, the only way the loan could have been a valid agreement under article XVI, section 18 of the state constitution is if it were payable from a special fund such as the Low and moderate income housing fund. The general fund of the city could not be obligated without 2/3 voter approval. This was not the intent of the loan as the repayment source was a pledge of low/mod program income, which is in fact how the city repaid the loan.

As background, the HELP funds were only used for low and moderate income housing projects. Therefore, Low/Mod Funds were an appropriate source of repayment. In fact, Low/Mod Funds were listed as the repayment source in the original loan applications submitted to CalHFA and in the staff reports presented to City Council on September 18, 2001 and September 24, 2002. In addition, the loan agreement states that "the source of funds utilized for repayment shall not be limited to any particular asset(s) of the Borrower." This comports with the application and staff report, as RDA funds, not City funds, were the intended source for repayment. This loan has been paid in full to CalHFA, a State of California Agency. The City requests that the SCO revise the report and remove the "order".

**Finding 2 – Unallowable transfer to the City of Stockton**  
**The City of Stockton Management response:**

Management concurs with the Order of the Controller. Management had previously identified prior to the SCO audit that the properties transferred to the City fall within the guidelines of H&S Code section 34181(a); the assets are for a governmental purpose. Accordingly, the original transfer was completed prior to RDA dissolution on June 7, 2011, and reauthorized by the Oversight Board to the Stockton Successor Agency on October 10, 2012, by Resolution No. OB 2012-10-10-06. No additional action will be taken.

Should you have any questions, you may contact Vanessa Burke at (209) 937-8908 or via email at [vanessa.burke@stocktongov.com](mailto:vanessa.burke@stocktongov.com).



VANESSA BURKE  
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 Laurie Montes, Deputy City Manager  
 Kurt Wilson, Deputy City Manager  
 Elena Adair, Assistant Director, Administrative Services Department

**State Controller's Office  
Division of Audits  
Post Office Box 942850  
Sacramento, CA 94250-5874**

**<http://www.sco.ca.gov>**

## EXHIBIT C

## Summary of Financial Transactions

	Redevelopment Agency			Successor Agency
	12 Months Ended 6/30/2010	12 Months Ended 6/30/2011	7 Months Ended 1/31/2012	5 Months Ended 6/30/2012
<b>ASSETS</b>				
Cash and investments	\$ 10,430,085	\$ -	\$ 1,090,344	\$ 3,846,643
Cash with fiscal agent	624,638	-	-	-
Restricted cash and investments	49,010,956	29,071,399	23,823,615	23,302,514
Receivables:				
Interest	99,953	14,747	-	14,784
Accounts receivable, net	6,763	11,966	13,122	13,165
Intergovernmental receivable	134,720	-	-	500,000
Due from other funds	500,000	1,775,526	5,909,108	4,802,528
Prepays and other assets	37,949	192,013	13	13
Loans to other funds	11,647,244	2,388,752	2,388,752	-
Loans to property owners	44,370,219	48,243,497	53,219,194	121,157
Interest receivable related to loans receivable	-	4,461,221	-	36,474
<b>Total Assets</b>	<b>\$ 116,862,527</b>	<b>\$ 86,159,121</b>	<b>\$ 86,444,148</b>	<b>\$ 32,637,278</b>
<b>LIABILITIES</b>				
Accounts payable	2,891,644	170,519	7,194	9,124
Due to other funds	5,414,174	1,775,526	5,909,108	5,909,108
Due to other governments	11,502,311	-	1,100,726	-
Deferred revenue	-	52,704,718	53,219,194	157,629
Deposits and other liabilities	3,336	-	-	-
Loans from other funds	6,233,070	1,888,752	1,888,752	1,888,751
<b>Total Liabilities</b>	<b>26,044,535</b>	<b>56,539,515</b>	<b>62,124,974</b>	<b>7,964,612</b>
<b>Total Fund Balances</b>	<b>90,817,992</b>	<b>29,619,606</b>	<b>24,319,174</b>	<b>24,672,666</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 116,862,527</b>	<b>\$ 86,159,121</b>	<b>\$ 86,444,148</b>	<b>\$ 32,637,278</b>
Total Revenues	\$ 20,516,379	\$ 15,801,542	\$ 7,773,050	\$ 16,471,542
Total Expenditures	(49,839,229)	(41,058,692)	(12,543,480)	(13,122,718)
OTHER FINANCING SOURCES (USES)	2,194,184	3,998,830	(530,002)	-
SPECIAL ITEM	-	3,269,612	-	-
NET CHANGE IN FUND BALANCES	(27,128,666)	(17,988,708)	(5,300,432)	3,348,824
BEGINNING FUND BALANCES	117,946,658	47,608,314 (1)	29,619,606	24,319,174
TRANSFER TO HOUSING FUND	-	-	-	(2,995,332)
ENDING FUND BALANCES (DEFICIT)	\$ 90,817,992	\$ 29,619,606	\$ 24,319,174	\$ 24,672,666
Other Information (show year end balances for all four periods presented):				
Capital assets as of end of year	\$ 71,863,218	\$ 34,466,525	\$ 32,640,964	\$ 32,025,109
Long-term debt as of end of year	\$ 242,538,438	\$ 132,048,588	\$ 127,835,934	\$ 129,727,830
(1) As restated for 12 months ended 6/30/2011				
Fund balance, as previously reported				\$ 90,817,992
Reduction due to change in accounting method				(41,401,993)
Decrease related to the recategorization of a sub fund into the Low/Mod Income Housing RDA Loan Fund				(2,713,365)
Increase due to the removal of accrued legal expenses that were paid in the prior year but not reversed				1,170,316
Reduction due to a change in accounting method pertaining to homeowner loans unexplained variance by the City				(254,861)
Fund balance, as restated				<u>\$ 47,608,314</u>

## EXHIBIT D

## Assets of all other funds of the Successor Agency

	Successor Agency							Total
	June 30, 2012							
	Debt Fund 231	Admin Fund 633	Midtown Fund 634	South Stockton Fund 635	North Stockton Fund 636	Waterfront Fund 637	Strong Neighborhoods Fund 638	
<b>ASSETS</b>								
Cash and investments	\$ 3,127,405	\$ 4,682	\$ 350,455	\$ 81,175	\$ 48,976	\$ 233,950	\$ -	\$ 3,846,643
Restricted cash and investments	13,885,584	-	-	-	-	-	9,416,930	23,302,514
Receivables:								
Intergovernmental receivable	-	-	-	-	-	500,000	-	500,000 (1)
Interest receivable	13,762	-	-	-	-	-	1,022	14,784
Misc receivable	-	-	-	13,115	-	-	50	13,165
Due from other funds	-	-	3,099,899	1,658,649	43,980	-	-	4,802,528
Loans receivable	-	-	54,035	19,058	84,000	538	-	157,631 (2)
Prepays and other assets	-	-	-	13	-	-	-	13
Total Assets	<u>\$ 17,026,751</u>	<u>\$ 4,682</u>	<u>\$ 3,504,389</u>	<u>\$ 1,772,010</u>	<u>\$ 176,956</u>	<u>\$ 734,488</u>	<u>\$ 9,418,002</u>	<u>32,637,278</u>
							Capital assets	<u>32,025,109 (3)</u>
								<u>\$ 64,662,387</u>

(1) Due from City of Stockton for workers compensation payments

Loan Description	Amount
BERMAN MARC	\$ 11,480
CASTELLANOS STEPHAN	3,470
DAVIS MERLIN	11,634
PRUNER ROLLAND	15,604
WILLIAMS MARK	3,861
RODGERS DONALD	14,570
THE HAN TSU LOH AND SUSANA LAW JUNG TRUST	60,000
CESENA RALPH	538
Accrued interest	36,474
	<u>\$ 157,631 (2)</u>

Capital Assets	Amount
Land	\$13,047,928
Building and structures	11,749,529
Improvements	10,898,549
Machinery and equipment	302,547
Public art	169,000
Accumulated depreciation	(4,142,444)
	<u>\$32,025,109 (3)</u>

**EXHIBIT E****Asset balances held on June 30, 2012 restricted for various purposes**

	Description	Amount
RESTRICTED ASSETS		
Debt Service Fund 230	Reserve Fund Arena Project 2004	\$ 3,906,763
Debt Service Fund 230	Strong Neighborhoods Reserve fund 2006 Series A	5,677,755
Debt Service Fund 230	Strong Neighborhoods Reserve Fund 2006 Series B	765,812
Debt Service Fund 230	Strong Neighborhoods Reserve Fund 2006 Series C	3,535,254
Project Fund 342	Strong Neighborhoods Project Fund 2006 Series A & B North Stockton	828,960
Project Fund 342	Strong Neighborhoods Project Fund 2006 Series A & B South Stockton	429,022
Project Fund 342	Strong Neighborhoods Project Fund 2006 Series A & B Midtown Stockton	4,789,303
Project Fund 342	Strong Neighborhoods Project Fund 2006 Series C	3,369,645
Total		<u>\$ 23,302,514</u>

**EXHIBIT F****Assets as of June 30, 2012 not liquid or otherwise available for distribution**

	<u>All other Funds</u>
NON-LIQUID ASSETS	
Land	\$ 13,047,929
Building and Structures	11,749,529
Improvements	10,898,549
Machinery and equipment	302,546
Public art	169,000
Accumulated depreciation	(4,142,444)
Other Assets	685,593 (1)
<b>Total nonliquid assets</b>	<b><u>\$ 32,710,702</u></b>
Other non-liquid assets	Amount
Interest receivable	\$ 14,784
Accounts receivable, net	13,165
Intergovernmental receivables	500,000
Loans to property owners	121,157
Interest receivable related to loans receivable	36,474
Prepays and other assets	13
	<b><u>\$ 685,593 (1)</u></b>

**EXHIBIT G**

**Recognized Obligation Payment Schedule**

# ATTACHMENT B

Due Diligence Review  
Worksheet, Item #9  
Amounts needed to satisfy ROPS II and ROPS III

**RECOGNIZED OBLIGATION PAYMENT SCHEDULE (ROPS II)**  
**July 1, 2012 through December 31, 2012**

Project Name / Debt Obligation	Payee	Description	Reserves	RPTTF	Other	Total	Comments
Low/Mod Housing Bonds	Wells Fargo Corporate Trust	2003 Housing COP	671,372			671,372	Reserves column were required to meet our debt service obligations, as tax increment funds were not sufficient to cover debt service due in September 2012 or March 2013. The reserves were used for debt service, fully depleted, and reported to DOF in subsequent ROPS.
Low/Mod Housing Bonds	Wells Fargo Corporate Trust	2006 Series C - Revenue Bond	1,301,982			1,301,982	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond (Midtown)	291,713			291,713	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond (South)	190,680	569,558	145,530	905,768	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond (North)	461,775			461,775	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond (Midtown)	80,152	376,798		456,950	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond (South)	202,373	240,699		443,072	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond (North)	316,672	209,388		526,060	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2004 Revenue Bond - Arena	221,836	1,294,278		1,516,114	
State Debt	State Department of Boating and Waterways	DBAW Planning Loan				-	
Fee Deferral	Public Facility Fees	Development Impact fees for 612 Carlton Ave				-	
Fee Deferral - WorkNet Office Bldg	Public Facility Fees	Development Impact fees for Worknet Office Building				-	
Fee Deferral - Cineplex	Public Facility Fees	Development Impact fees for Cineplex project			4,367	4,367	
Agency Vs. Union Oil	Brown & Winters and/or Union Oil	Union Oil Dispute Re: Ground Water Contamination				-	
Price Vs. City of Stockton	California Rural Legal Assistance	removal relocation assistance \$1,455,000. \$460,652 expended, remaining obligation \$994,348. Replacement of 185 housing units: 146 completed, remaining obligation 39 units @ 30% of AMI (est cost \$4M). *Subject to final determination by the parties.				-	See notes below
Civic Partners	Freeman, D'Aiuto, Pierce, Gurev, Keeling & Wolf	Developer Claims RDA Breached Contract (Legal defense costs)			3,523	3,523	
Agency vs. BNSF	Brown & Winters	Contamination at Worknet Site & Southpointe (Litigation expenses)				-	
Agency vs. State (Caltrans)	Brown & Winters	Coincides with BNSF case, Caltrans is a former owner (Litigation expenses)				-	
Agency vs. Colberg	Brown & Winters	Polanco Act corrective action trial (Litigation expenses)				-	
AT&T Datacomm	AT&T Datacomm	Contract for installation of Security Cameras			377,644	377,644	
Vintage	Visionary Home Builders	Housing Loan			108,541	108,541	Low Mod obligation
Community of All Nations	Visionary Home Builders	Housing Loan			-	-	
Wallace Kuhl & Associates	Wallace Kuhl & Associates	South Shore				-	
Condor Earth Technologies	Condor Earth Technologies	Marina Water Quality Testing				-	
Treadwell and Rollo Inc	Treadwell and Rollo Inc	Parcel 2A & 24 Remediation				-	
Wallace Kuhl & Associates	Wallace Kuhl & Associates	Removal Action Plan for Promenade & South Pointe				-	
D R Jolley Co	D R Jolley Co	McKinley Park caretaker Building Asbestos Removal			5,630	5,630	
Hotel Stockton	Hotel Stockton Investors	Renovation of Hotel Stockton - for affordable housing				-	
Remediation of Areas 24 and 4	City of Stockton	Remediation of lots north and south of Worknet site				-	
Downtown Stockton Alliance	Downtown Stockton Alliance	DSA Assessment of RDA owned properties				-	
Agency Staff & Overhead	Agency Employees through City of Stockton	Existing salary, benefits, and overhead for Agency administration - Property maintenance & management		125,000	Included in ROPS III calculation	125,000	
<b>Total</b>			<b>3,738,555</b>	<b>2,815,721</b>	<b>645,235</b>	<b>7,199,511</b>	

*RPTTF  
payment*

# ATTACHMENT B

**RECOGNIZED OBLIGATION PAYMENT SCHEDULE (ROPS III)**  
**January 1, 2013 through June 30, 2013**

Project Name / Debt Obligation	Payee	Description	Reserves	RPTTF	Other	Total	Comments
Low/Mod Housing Bonds	Wells Fargo Corporate Trust	2003 Housing COP		318,633	164	318,797	
							Amounts in the Reserves column were required to meet our debt service obligations, as tax increment funds were not sufficient to cover debt service due in September 2012 or March 2013. The reserves were used for debt service, fully depleted, and reported to DOF in subsequent
Low/Mod Housing Bonds	Wells Fargo Corporate Trust	2006 Series C - Revenue Bond	103,264	707,050	105,326	915,640	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond		267,036	24,677	291,713	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond		537,292	50,727	588,019	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond		417,794	43,981	461,775	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond		13,743	135	13,878	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond (refer to notes)				-	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond		15,836	176	16,012	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2004 Revenue Bond - Arena		1,054,457	116	1,054,573	
Low/Mod Housing Bonds	Wells Fargo Corporate Trust	2003 Housing COP (refer to notes)				-	
Low/Mod Housing Bonds	Wells Fargo Corporate Trust	2006 Series C - Revenue Bond (refer to notes)		543,017		543,017	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond (refer to notes)		268,298		268,298	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond (refer to notes)		610,508		610,508	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series A - Revenue Bond (refer to notes)				-	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond (refer to notes)		268,298		268,298	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2006 Series B - Revenue Bond (refer to notes)				-	
Redevelopment Revenue Bonds	Wells Fargo Corporate Trust	2004 Revenue Bond - Arena (refer to notes)			200,635	200,635	
State Debt	State Department of Boating and Waterways	DBAW Planning Loan (refer to notes)				-	
Fee Deferral	Public Facility Fees	Development Impact fees for 612 Carlton Ave				-	
Fee Deferral - WorkNet Office Bldg	Public Facility Fees	Development Impact fees for Worknet Office Building				-	
Fee Deferral - Cineplex	Public Facility Fees	Development Impact fees for Cineplex project				-	
Agency Vs. Union Oil	Brown & Winters and/or Union Oil	Union Oil Dispute Re: Ground Water Contamination				-	
Price Vs. City of Stockton	California Rural Legal Assistance	Tenant relocation assistance \$1,455,000: \$460,652 expended, remaining obligation \$994,348. Replacement of 185 housing units: 146 completed, remaining obligation 39 units @ 30% of AMI (estimated cost \$4M). *Subject to final determination by the parties.				-	
Civic Partners	Freeman, D'Aiuto, Pierce, Gurev, Keeling & Wolf	Developer Claims RDA Breached Contract (Estimated legal defense costs)			5,704	5,704	
Agency vs. BNSF	Brown & Winters	Contamination at Worknet Site & Southpointe (Estimated litigation costs)				-	
Agency vs. BNSF	Barg Coffin Lewis & Trapp LLP	Contamination at Worknet Site & Southpointe Settlement Agreement				-	
Agency vs. State (Caltrans)	Brown & Winters	Coincides with BNSF case, Caltrans is a former owner (Estimated litigation costs)				-	
Agency vs. Colberg	Brown & Winters	Polanco Act corrective action trial (Estimated litigation costs)				-	
AT&T Datacomm	AT&T Datacomm	Contract for installation of Security Cameras				-	
AT&T Datacomm	AT&T Datacomm	Contract for installation of Security Cameras				-	
AT&T Datacomm	AT&T Datacomm	Contract for installation of Security Cameras				-	
Vintage	Visionary Home Builders	Housing Loan				-	
Community of All Nations	Visionary Home Builders	Housing Loan			102,867	102,867	SNI C project

ATTACHMENT B

Project Name / Debt Obligation	Payee	Description	Reserves	RPTTF	Other	Total	Comments
Wallace Kuhl & Associates	Wallace Kuhl & Associates	South Shore			2,059	2,059	
Condor Earth Technologies	Condor Earth Technologies	Marina Water Quality Testing				-	
Treadwell and Rollo Inc	Treadwell and Rollo Inc	Parcel 2A & 24 Remediation				-	
Wallace Kuhl & Associates	Wallace Kuhl & Associates	Removal Action Plan for Promenade & South Pointe				-	
D R Jolley Co	D R Jolley Co	McKinley Park caretaker Building Asbestos Removal				-	
Hotel Stockton	Hotel Stockton Investors	Renovation of Hotel Stockton - for affordable housing				-	
Remediation of Areas 24 and 4	City of Stockton	Remediation of lots north and south of Worknet site (Estimated cost of Remediation)				-	
Downtown Stockton Alliance	Downtown Stockton Alliance	DSA Assessment of RDA owned properties. PBID expiration is 12/31/2017. (Estimated assessments to be paid at \$50,000 per year for 5 years, may be longer if properties not sold)		42,350	7,985	50,335	
Walgreens Project	Farmington Mariposa Development Co. LLC	Reimbursement Agreement Mariposa Walgreens			265,775	265,775	
Property Maintenance	City of Stockton/TBD	Budgeted maintenance costs of RDA/SA- Owned properties prior to disposition. (Amount is an estimate, and approved in the Administrative Budget for FY 12-13.)				-	
SERAF Payment Loan from Low/Mod	Low/Moderate Income Housing Asset Fund	Repayment of loan from Low/Mod Housing funds to make SERAF payment in 2011				-	
SERAF Payment Loan from Low/Mod	Low/Moderate Income Housing Asset Fund	Repayment of loan from Low/Mod Housing funds to make SERAF payment in 2011				-	
Loan to Waterfront	Low/Moderate Income Housing Asset Fund	To cover negative cash position of Agency				-	
Successor Agency Staff, Overhead, & Administrative Costs	Successor Agency employees through City of Stockton	Salary, benefits, overhead, and administrative costs of the Successor Agency		125,000	213,303	338,303	Other: unaudited GF loan subsidy for 12/13 FY
<b>Total</b>			<b>103,264</b>	<b>5,189,312</b>	<b>1,023,630</b>	<b>\$ 6,316,206</b>	

RPTTF

payment

**Total needed to satisfy ROPS II and ROPS III** 3,841,819 8,005,033 1,668,865 \$ 13,515,717

**Housing needs:**

Low Mod obligations	paid during ROPS II, listed above	108,541
Low Mod obligations, unpaid	Hotel Stockton Low/Mod housing to be completed.	69,426
Total Non-Housing needed		<u>\$ 177,967</u>

**Non-Housing needs:**

\$ 13,337,750

**Notes / Adjustments**

Price Settlement Agreement listed on Summary schedule under legal obligation. ROPS description: Tenant relocation assistance \$1,455,000: \$460,652 expended, remaining obligation \$994,348. Replacement of 185 housing units: 146 completed, remaining obligation 39 units @ 30% of AMI (estimated cost \$4M). \*Subject to final determination by the

\$ 4,994,348

**EXHIBIT H****Summary of Balances Available for Allocation**

Total amount of assets held by the successor agency as of June 30, 2012 (Procedure 5)	\$ 64,662,387
Add the amount of any assets transferred to the city for which an enforceable obligation with a third party requiring such transfer and obligating the use of the transferred assets did not exist (Procedure 2 and 3)	-
Less assets legally restricted for uses specified by debt covenants, grant restrictions, or restrictions imposed by other governments (procedure 6)	(23,302,514)
Less assets that are not cash or cash equivalents (e.g., physical assets) - (procedure 7)	(32,710,702)
Less balances that are legally restricted for the funding of an enforceable obligation (net of projected annual revenues available to fund those obligations) - (procedure 8)	-
Less balances needed to satisfy ROPS for the current fiscal year	<u>(13,337,750)</u>
 Amount to be remitted to county for disbursement to taxing entities	 <u><u>\$ (4,688,579)</u></u>

*Note that separate computations are required for the Low and Moderate Income Housing Fund held by the Successor Agency and for all other funds held by the Successor Agency.*

NOTES: For each line shown above, an exhibit should be attached showing the composition of the summarized amount.

If the review finds that there are insufficient funds available to provide the full amount due, the cause of the insufficiency should be demonstrated in a separate schedule.

**EXHIBIT I**

**Management Representation Letter**



## CITY OF STOCKTON

**ECONOMIC DEVELOPMENT DEPARTMENT****Housing, Economic Development, Asset Management and Central Parking**City Hall • 425 N. El Dorado Street, Suite 317 • Stockton, CA 95202-1997 • 209 / 937-8539 • Fax 209 / 937-5099  
www.stocktongov.com

February 18, 2014

Pun & McGeedy LLP  
1655 N. Main Street, Suite 355  
Walnut Creek, California 94596

In connection with your engagement to apply agreed-upon procedures relating to the Successor Agency Due Diligence Review as of June 30, 2012, which were agreed to by the California State Controller's Office and the California State Department of Finance, solely to assist us in ensuring that our dissolved redevelopment agency is complying with its statutory requirements with respect to Assembly Bill ("AB") 1484 and we confirm to the best of our knowledge and belief, the following representations made to you during your engagement.

1. The City of Stockton is responsible for compliance with California Health and Safety Code (HSC) Section 34179.5.
2. We are responsible for adherence to the requirements of AB 1484 as applicable to the successor agency and the sponsoring organization of the dissolved redevelopment agency.
3. We are responsible for the presentation of the exhibits in Successor Agency Due Diligence agreed-upon procedures report in accordance with the California Health and Safety Code (HSC) Section 34179.5
4. As of June 30, 2012, we are not aware of any modifications that need to be made to the Successor Agency Due Diligence Review exhibits for them to be presented in accordance with California Health and Safety Code Sections 34179.5(c)(1) through 34179.5(c)(3) and Sections 34179.5(c)(5) through 34179.5(c)(6).
5. The City of Stockton approves the acceptability of the procedures that have been developed by the California Department of Finance in accordance with California Health and Safety Code (HSC) Section 34179.5.
6. We have disclosed to you any known matters contradicting the information contained in the Successor Agency Due Diligence Review AUP report.
7. There have been no communications from regulatory agencies, internal auditors, and other independent practitioners or consultants relating to the Successor Agency Due Diligence Review, including communications received between June 30, 2012 and Issuance Date.
8. We have made available to you all information that we believe is relevant to the Successor Agency Due Diligence Review.
9. We have responded fully to all inquiries made to us by you during the engagement.

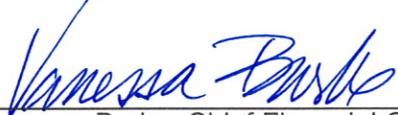
10. No events have occurred subsequent to June 30, 2012 that would require adjustment to or modification of the information contained in the Successor Agency Due Diligence Review AUP report and its related exhibits.
11. Management is not aware of any transfers (as defined by Section 34179.5) from either the former redevelopment agency or the Successor Agency to other parties for the period from January 1, 2011 through June 30, 2012 that have not been properly identified in the AUP report and its related exhibits.
12. Your report is intended solely for the information and use of the City of Stockton, the California Department of Finance, the California State Controller's Office, and the County of San Joaquin's Auditor-Controller's Office and is not intended to be and should not be used by anyone other than those specified parties.

To the best of our knowledge and belief, no events have occurred subsequent to the date of your report that would have a significant impact upon the agreed upon procedures that you performed.

**City of Stockton, as the sponsoring organization and as representatives of the Successor Agency for the City of Stockton Redevelopment Successor Agency:**

  
\_\_\_\_\_  
Micah Runner, Economic Development Director

2/18/14  
\_\_\_\_\_  
Date

  
\_\_\_\_\_  
Vanessa Burke, Chief Financial Officer

2/18/14  
\_\_\_\_\_  
Date