City of Stockton's Proposals for Modifications to Obligations Under AB 506 Process

May 7, 2012

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Executive Summary

The "Great Recession" has seriously damaged the City of Stockton's finances. Record foreclosure levels, plummeting home prices, and high unemployment have cut City revenues, at the same time previous labor contracts, generous retiree medical benefits, and increasing debt obligations were driving up expenses. The City Council has declared two fiscal emergencies and negotiated or imposed labor concessions of $25 million and service reductions of $12 million in FY11-12 alone.

Since FY08-09, the City has been forced through lack of funds to reduce sworn General Fund Police staffing by 25%, Fire staffing by 30% and all other staffing by 43%. Programs and services have been reduced to minimum – or below minimum – levels. Sworn Police staffing per 1,000 residents has dropped from a high of 1.52 per 1,000 residents in 2005 to 1.16 currently, and in the face of a rising local crime rate. While violent crime rates dropped 5.5% nationwide in 2010, they were up in Stockton, which ranked 10th in the U.S. with 13.81 violent crimes per 1,000 residents.

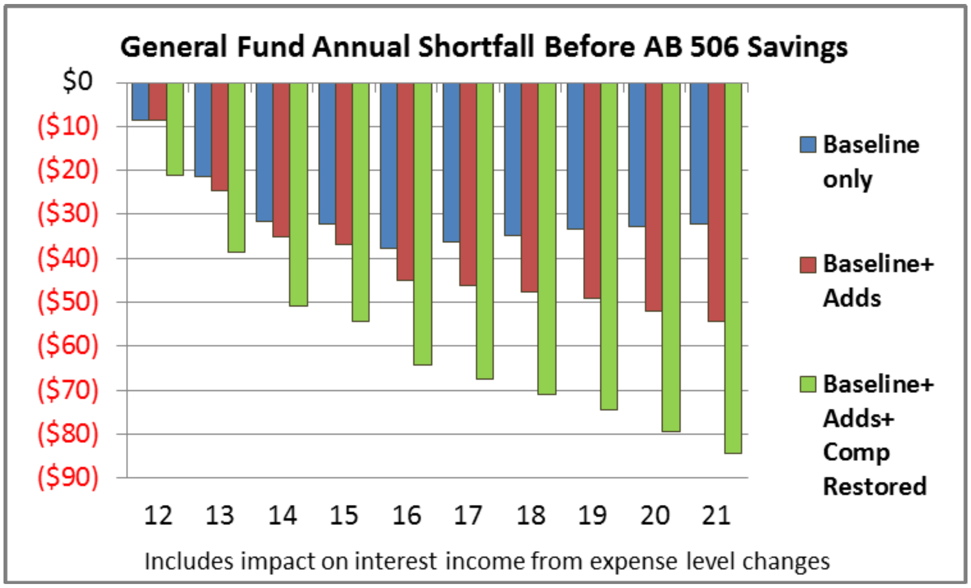
Despite four years of cost-cutting, current estimates still show a significant shortfall for FY12-13. The City has spent its reserves and cannot close the gap without further large cost reductions. The City's best case shows an annual General Fund shortfall of $21.3 million in FY12-13.[1] This is a status quo "baseline budget" with no change in current positions and no COLAs. Without making new, major reductions in the City's costs, the annual deficit will increase to an average of $34.5 million over FY15-16 through FY20-21. None of these shortfalls can exist because the California Constitution prohibits cities from deficit spending.

However, the status quo includes an unrealistically low level of expense: to remain a sustainable and competitive city, expenses will have to increase to allow salary and health COLAs for the City to remain competitive in the labor market, phase-out the furloughs to handle more workload with the current workforce, and immediately replace aging and failing technology (such as an accounting system that dates to 1991), make investments in preventative maintenance to avoid more costly repairs later on, and slowly replenish internal service fund balances that were drained as part of past budget balancing efforts. Adding in these expenses increases the shortfall to $24.5 million in FY12-13 and it grows to $54.5 million by FY20-21, but this is a far more realistic measure of the City's financial distress, because to be sustainable the City will have to be able to absorb such expenses.

These are best-case shortfall numbers that assume the City prevails in the current court challenges by the Stockton Police Officer Association (SPOA) and Stockton City Employees Association (SCEA) seeking to overturn the imposition by the City of certain pay and benefit cuts on those units. If the unions prevail, $12.5 million in back pay and benefits will have to be restored, and assuming these costs remain in base compensation and that employee health contributions increase with premium costs, the shortfall will increase to $38.5 million in FY12-13, and rise to $84 million in FY20-21.

[1] Financial estimates hereafter refer to the General Fund budget forecast updated as of 5/7/12, a summary of which is included in Attachment 1.

The following chart shows the annual General Fund shortfall under all three scenarios: baseline only, baseline plus added fiscal stabilization-related expenses, and then the addition of expense from the restoration of pay and benefit cuts.



On February 28, 2012, the City Council authorized initiation of the AB 506 process. The 506 process is the only way short of bankruptcy that savings can be realized from existing obligations, beyond what the City already has been able to negotiate or impose. The purpose of this report is to describe the City's proposals to be presented during mediation. The proposals are in four categories: (1) labor, (2) retiree medical for current retirees and current employees, (3) debt, and (4) other contracts and claimants.

Contributing Factors to Stockton's Financial Condition

The City has suffered from the cumulative effect of poor decisions and practices, compounded by the misfortune of suffering to a greater extent than most in the country from the effects of the Great Recession. The following is a brief recap of events, both self-inflicted and beyond the City's control, which led to the City's current financial calamity.

Unsustainable Retiree Benefits: In the 1990's, the City greatly expanded its retiree health insurance commitments to levels well beyond what other cities offer. Annual pay-as-you-go costs for all funds total $13.8 million currently, and will double in ten years to $27.4 million. In the past two years, annual costs have increased by $1.5 million despite benefit restructuring that reduced unfunded liability by $100 million. Even with these steps, the unfunded liability for retiree health benefits remains at $417 million, and there is no money set aside to pre-fund these obligations. Of the approximately 2,400 City retirees, there are just under 1,100 who receive medical benefits. These 1,100 are the more recent retirees who also have enhanced pension benefits. For these retirees the City pays for the full premium for the retiree and one dependent. There is no cap on City costs for the retiree/dependent premium, and no minimum years of service are required to receive the benefit except for the SCEA and OE3 groups who have a requirement of 15 years of Stockton service. Starting in FY13-14, the City will be spending more on health benefits for retirees than for current employees. Costs are predicted by the City's outside consultants to increase at an average of 9% annually over the next four years, and 6.9% over the next 10 years, including health premium increases and new retirees who remain eligible for the benefits.

Labor Contracts: In previous years the City approved labor contracts that were neither transparent nor sustainable. Automatic salary increases were tied to other cities that were not reasonable comparisons to Stockton's labor market. The base salary used for comparison excluded many "additional pays" for longevity, education and specialty assignments, so that while "base pay" might not seem unreasonable, total compensation grew higher than the labor market. The City has never attempted to reduce base pay, but these premium additional pays clearly exceed the labor market average. Premium pays, management of overtime and sick leave payouts at separation are very expensive and hinder the City's ability to meet its other obligations. Contracts restricted management's ability to reduce staffing levels or restructure service delivery. As the financial picture worsened, most labor groups were willing to renegotiate closed contracts to reduce compensation and benefits over the labor market. However the SPOA and the SCEA were not willing to make these same changes, and the City Council had to declare two fiscal emergencies and impose concessions on these two groups that represent the majority of the City's employees. The emergency impositions are being challenged in court and at the Public Employment Relations Board (PERB) by SPOA and SCEA. The ultimate outcome in these matters has yet to be determined, but if the unions are successful, an additional $16 million in ongoing deficit will ultimately result, as well as another $12.5 million in back pay that would be owned and is not budgeted for. Any back pay award would be added to the City's deficit projections.

Excessive Debt Burden: The City incurred very large amounts of debt in the last decade to finance an ambitious plan for new public facilities and downtown improvement, including:

- $13 million for housing projects at Hotel Stockton, Mercy Housing, Fremont Park (2003 Certificates of Participation)
- $46 million for the events center/arena (2004 RDA Revenue Bonds)
- $32 million for three parking garages and other capital projects (2004 Lease Revenue Bonds)
- $13.5 million for the Essential Services Building (completed in 2001 and refinanced by the 2006 Lease Revenue Bonds)
- $11 million for marina improvements (2006 Dept of Boating & Waterways loan)
- $40 million for a new City Hall (2007 Lease Revenue Bonds)
- $35 million for a fire station, police communications center, parks and street improvements (2009 Lease Revenue Bonds)

The City assumed the hyper growth that was occurring in the housing sector would continue indefinitely, and that developer fees and property tax growth would pay the tab. In order to finance these facilities the City agreed to use the General Fund as backup security for bond repayment, even where other payments streams were available. In 2007, the City took on $125 million of pension obligation bonds in an effort to pay off an unfunded liability at a lower cost than PERS actuarial rates. It also lost a judgment to the Jarvis organization which requires the General Fund to make $34 million in repayments to the Water and Wastewater funds over 30 years. Before the economic downturn, the City took risks by issuing variable rate bonds, and counting on significant rental income from the 400 E. Main building. Even as revenues began to decline significantly, the City issued its 2009 lease revenue bonds to provide funding for development related projects, counting on development impact fees from new development to cover the General Fund's obligation to make debt service payments. With the collapse of the housing market, new construction stalled and assessed values plunged, and the General Fund is consequently backfilling various bond obligations at a time when debt service is increasing, nearly six-fold -- from $3 million in FY06-07 to $17.2 million in FY12-13.

Economic Collapse: On top of everything else, the "Great Recession" has devastated the entire Valley. Stockton's housing market has been among the hardest hit in the U.S., with no significant signs of improvement expected until 2017. The following are indications of just how bad off the local economy is:

- Stockton has the worst foreclosure rate in the U.S. with one out of every 60 homes at some stage of foreclosure.
- A nationwide study in 2011 of home loans ranked Stockton 2nd highest in loans "underwater" at 56% (second only to Las Vegas at 66%.)
- The City currently ranks 3rd out of 306 metropolitan areas nationwide in magnitude of home value reduction over the past five years at 57.2%.
- The median home price in February 2012 was $118,500 (down from $407,000 in December 2005).
- Total single-family housing starts in the Stockton metropolitan area averaged 150 new units per year over the three calendar years of 2009, 2010 and 2011, which is only 5% of the average 3,000 housing starts per year over the three pre-recession years of 2003, 2004 and 2005.
- Stockton's unemployment rate remains at 19.9%, almost two and one-half times the national rate of 8.2%, and almost double California's rate of 10.9%, and this does not consider the Stockton's percentage of "underemployed" workers which approaches 40%.
- Forbes Magazine ranked Stockton #1 on its "Most Miserable Cities" list in 2009 and 2011. (It currently ranks #11 on the 2012 list, despite being ranked #6 in unemployment, foreclosures and violent crime.)

A major consequence of this economic decline is the impact on property tax revenues. The California property tax system is unusual, in that it limits the growth in assessed value of property to the greater of 2% per year or an inflation index, absent change in ownership or new construction. However, where changes in ownership result in lower values (which is typically the case in foreclosures, short sales, etc.), the new base is locked in at the lower value. Thus, the high rate of foreclosures in Stockton will penalize the City for years to come with lower property tax revenues and growth rates compared to cities with lower foreclosure levels.

Elimination of Redevelopment: In addition to suffering the adverse financial impacts of the housing crash, high unemployment and business losses, the City has been hit with the state's elimination of redevelopment. Stockton's redevelopment agency (RDA) played a key role in urban renewal and construction of public facilities, and now the City is the successor agency, absorbing the cost of RDA staff and having to pay former RDA obligations that lack sufficient tax increment, which has plunged 60% since the real estate markets collapsed. As of 6/30/11 the RDA has a deficit of $3.9 million, but this is the net impact of all project areas. The RDA overspent on projects over the past four years, and the resulting cash overdrafts were papered-over with unauthorized working capital loans with the City that were not specifically documented or understood, as discussed at the City Council meeting of 2/28/12. The North Stockton and Waterfront project areas have a combined overdraft of $9 million, while other areas, including Midtown, South Stockton and Affordable Housing programs have surplus cash balances of approximately $6 million. The RDA's net cash position at 6/30/11 is an overdraft of $2.7 million. The City Council's action of 2/28/12 included the adjustments necessary to correct these errors. However, the low tax increment will create ongoing burdens for the General Fund, given its obligation to backfill the 2003 Housing COPs and 2004 Arena bonds.

Financial Adjustments: After new financial staff came to the City in 2010, a number of bookkeeping errors were discovered that had accumulated from prior years. These were discussed at the 2/28/12 Council meeting and appropriate prior period adjustments were approved. These errors included double-counting parking citation cash, failure to write down as uncollectible accounts receivable dating back as long as ten years or more, and adjustments to wages payable and expenditures, which had the net effect of overstating General Fund available fund balance by $3.8 million. At the 2/28/12 meeting, staff also provided updates for FY10-11 and FY11-12, which are summarized in the following table. They resulted in a net shortfall of $15.2 million, which the City closed by making multiple transfers from available funds for the balance of this fiscal year and suspending certain debt service and other payment obligations, which will leave the General Fund with a projected zero available fund balance at 6/30/12. These actions included sweeping funds to move staff into the new city hall, stripping replacement funds for fleet and technology, and eliminating a popular arts endowment.

Summary of Changes in Projected General Fund Available Balance
($ in 000)

6/30/10 balance previously reported in FY09-10 CAFR	$1,101
Prior period adjustments (2/28/12 report)	(3,795)
6/30/10 balance restated	(2,694)
Net annual activity for FY10-11 previously reported	(379)
Net change in FY10-11 activity (2/28/12 report)	(3,480)
6/30/11 balance restated	(6,553)
Net annual activity for FY11-12 previously reported	-
Net change in FY11-12 activity (2/28/12 report)	(8,653)
6/30/12 balance before solutions	(15,206)
Council-adopted solutions (2/28/12)	15,206
6/30/12 balance after solutions	-

No single factor is the cause of our current financial problems. However, the cumulative effect of all these factors has created a situation too big to "grow our way" out of the problem. Past commitments are driving expenditures rapidly higher at the same time as the revenue gap is widening: if ongoing revenues from 2009 grew at only 3% annually, the City would have $208 million in General Fund revenue in FY12-13, instead of the $154 million we expect, a gap of $54 million. Meanwhile, retiree health costs are projected to increase by 115% over the next 10 years, and pension costs by 94%. Public safety grants are ending, forcing the General Fund to absorb $6 million of costs by FY14-15. The City is contesting lawsuits that would force $12.5 million in back pay and add approximately $15 million annually in personnel expense. And the City is ending the upcoming fiscal year with no reserves and facing a continuing structural imbalance between revenues and expenses of major proportions.

Budget Forecast

The City is currently using a budget forecast initially prepared for the 2/28/12 Council meeting, and then expanded by Management Partners into a long-term forecast with modeling capabilities. The City is in the process of preparing its FY12-13 Budget, and as that work is completed, updated information will be used to revise the forecast. The original 4/23/12 forecast provided to the interest parties has been replaced with one dated 5/7/12, and a working spreadsheet containing the forecast will be made available.

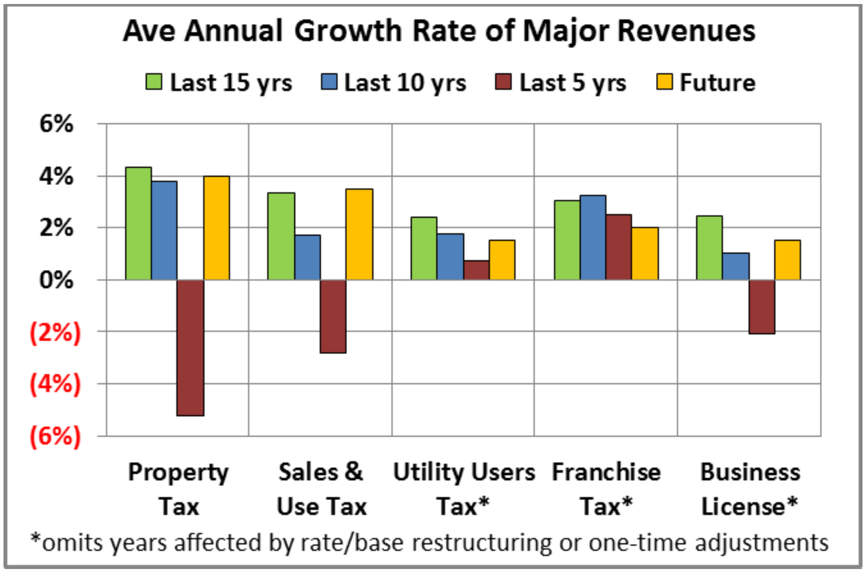
Baseline Budget: The forecast starts with a baseline budget. This is a continuation of the status quo, but reflects cost increases in pensions, retiree medical and other services and supplies that must be purchased by the City to continue the current minimal level of service it is providing. The estimates in the model do not include salary COLAs or restoring pay and benefit reductions imposed in connection with fiscal emergency resolutions during the last two years: the annual savings generated by these actions through the end of current contracts is approximately $15 million.

Key baseline budget revenue highlights are as follows:

- Property Tax assumes slow recovery with additional declines in FY12-13 and FY13-14 before increasing to 4% long-term growth by FY18-19. FY11-12 estimate is from HdL, the City's property tax auditor; future estimates are based on discussions with the County Assessor and developers. Prop 13 will hold down growth as properties that sell at deflated levels will only grow at up to 2% until sold. Those sale prices will depend on rate of market recovery, and whether trends shift to renting closer to work, rather than owning farther away. The long-term trend is straight-line, and although there will be years where revenue growth is higher and others where it is lower, the forecast does not attempt to predict which years the ups and downs (or negative growth) will occur.
- Sales Tax is based on HdL estimates through FY14-15, and assumes 3% long-term growth (which exceeds long-term CPI growth of 2.5%). The shift toward non-taxable services and non-taxed internet sales will hold down growth over time. Again, the long-term trend is straight-line and does not attempt to predict specific years that will be higher or lower than this estimate.

- Utility Users Tax (UUT), Franchise Tax and Business License Tax (BLT) are projected at 1.5% long-term growth. The UUT and Franchise Tax are subject to impact of user conservation, and technology trends (wireless vs. cable). The BLT is expected to grow slowly given local economic conditions.

The following graph compares the historical annual average growth rate over the long-term (15 years), medium-term (10 years) and short-term (5 years) for these five largest General Fund revenues, in comparison to the ongoing future growth rate for that revenue source contained in the budget forecast.

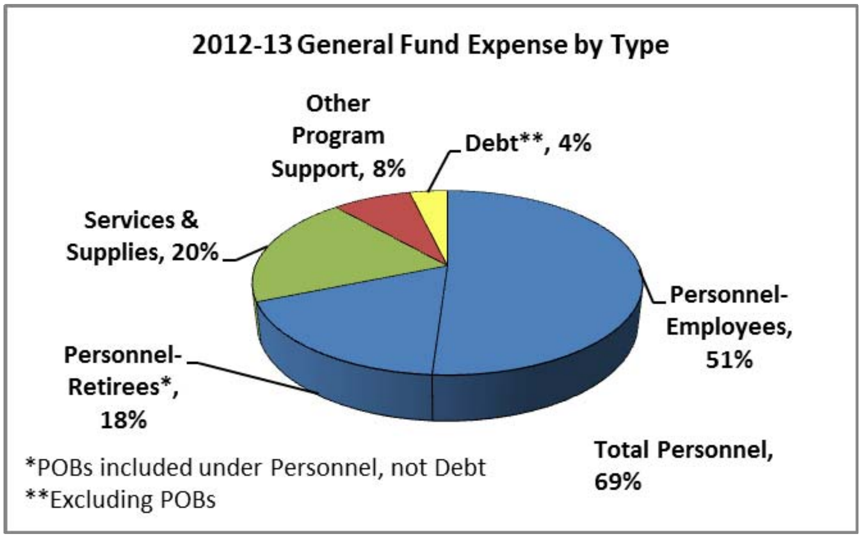


The following are key highlights from expense assumptions in the baseline budget:

- Pension-PERS costs are driven by the state's actuarial report, lower PERS discount rate for interest earnings, and lower City payroll which will drive up the unfunded liability rate. The major risk is additional reductions in the discount rate and/or PERS investment losses, which would drive employer rates up further. There is the risk that future labor negotiations (or court rulings) will result in lower employee contributions, which will drive up City costs.
- Increase in salaries in FY12-13 is due to absorbing Police personnel that were previously paid by grants; future year growth reflects merit pay increases. There is the risk that future labor negotiations (or court rulings) will result in higher employee pay levels.
- Employee health costs are flat, as it is assumed the City contribution level does not change. There is the risk that future labor negotiations (or court rulings) will result in higher City health contributions, which would be compounded the higher the growth in medical premiums.
- Retiree health costs are driven by the Segal actuarial report with annual growth averaging 9% growth over the next four years and 6.9% through FY20-21. The major risks are higher growth in medical premiums or higher numbers of retirees than projected.

- Net debt costs are higher in the near-term due to lower rents and cost of tenant improvements at 400 E. Main, but decrease as the lease-up rate improves. The major risk is a higher vacancy rate.

The projected major General Fund expenses of $177.5 million for FY12-13 are shown by type in the following chart.



The baseline budget results in ongoing deficits and no reserves. Constitutionally, the City cannot operate at a deficit, so the baseline budget is a non-starter without corrective actions. The following table shows a net shortfall of $8.7 million in FY11-12 (before Council actions of 2/28/12), rising to $21.3 million in FY12-13, and increasing to an annual average shortfall of $34.5 million from FY15-16 through FY20-21.

General Fund Baseline Expense Forecast by Major Categories

($ in Millions)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Salary	$52.0	$56.5	$56.9	$57.3	$60.2	$60.5	$60.7	$61.0	$61.4	$62.0
Pension-PERS	16.1	16.8	22.3	23.1	25.6	26.5	27.3	28.2	29.2	30.2
Pension-POBs	5.6	5.8	6.2	6.3	6.4	6.5	6.6	6.7	6.9	7.0
Health-Employees	9.5	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Health-Retirees	8.0	8.9	9.6	10.4	11.2	11.5	12.2	12.9	13.7	14.5
Overtime/Standby/Callback	6.8	6.8	6.9	7.0	7.1	7.2	7.3	7.3	7.4	7.5
Workers Comp	5.7	6.6	6.8	6.9	7.0	7.2	7.3	7.5	7.6	7.8
Other Pay/Benefits	7.1	6.6	6.7	6.8	6.8	6.9	7.0	7.1	7.1	7.2
Compensated Absenses	4.3	5.2	5.3	5.2	5.2	5.2	5.2	5.2	5.2	5.2
Subtotal Personnel	115.1	122.2	129.5	131.8	138.4	140.2	142.5	144.7	147.2	150.1
Services & Supplies	33.1	32.9	33.5	33.8	34.6	34.9	35.8	36.1	37.0	37.3
Other Program Support	13.2	13.8	14.4	14.6	14.8	15.1	14.4	14.4	14.7	14.9
Debt (excluding POBs)	4.4	6.7	7.4	6.3	6.3	5.8	5.8	5.7	5.6	5.6
Contingency	1.7	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Total Expense	167.5	177.5	186.8	188.4	196.2	198.0	200.4	202.8	206.5	210.0
Total Revenue*	158.8	156.2	155.1	156.1	158.6	161.8	165.6	169.5	173.6	177.8
Net Annual Shortfall	(8.7)	(21.3)	(31.7)	(32.3)	(37.7)	(36.3)	(34.9)	(33.3)	(32.9)	(32.2)

*Total revenue affected by negative interest resulting from negative balances.

Baseline Plus Fiscal Stabilization Expenses: While the immediate concern is establishing cash solvency, in the longer run the City must remain a competitive employer, rebuild reserves and make additional investments in technology and deferred maintenance if it is to achieve long-term budget solvency, i.e., ability to pay for all the fiscal year's expenses related to a given service level (even if that service level is well below what is warranted for the health, safety and welfare of the community). Even though the level of expense in the baseline budget is itself too high, it does not include the following minimal additional expenses that are required if the City is to become a sustainable organization over the long-haul:

- Furloughs phased out over three years (needed for workload management).
- Salary and health COLAs of 2% annually assumed to start in FY15-16 (needed for competitiveness).
- Investments in deferred maintenance of $1 million annually (needed for cost-effectiveness in avoiding more cost repairs later).
- Investments of $250,000 annually in added technology (needed for increased productivity and to replace aging and unreliable systems)
- Increases of $750,000 annually in internal service fund reserves (needed to maintain adequate reserves for future claims and equipment replacement).
- Revenue assumptions are the same as the previous schedule, but negative interest is higher due to increased negative balances, so revenues are somewhat lower.

The baseline budget with fiscal stabilization expenses results in even greater ongoing deficits and no reserves, absent greater corrective actions. The net shortfall remains $8.7 million in FY11-12 (before Council actions of 2/28/12), rising to $24.5 million in FY12-13, and increasing more rapidly to $54.5 million by FY20-21. The average annual shortfall from FY15-16 through FY20-21 is $49.1 million, compared to the $34.5 million of the baseline-only forecast. This is a truer reflection of the shortfall facing the City, because it reflects the type of expenses, albeit at a low level, the City would have the responsibility for meeting in order to sustain this level of service over the long term.

But even if the City were to achieve a balanced budget at the "stabilized" level ("baseline plus adds") that budget would remain insolvent in terms of service delivery because it continues the current inadequately low level of City services, and does not allow for increased service levels to meet a growing population and needs in future years. It would also be insolvent from a budgetary standpoint because it would lack reserves. Operating a city without reserves is a perilous enterprise: any unexpected expenditure or emergency any over-estimation of revenues or an economic downturn will force immediate cuts in other areas just to remain solvent.

General Fund Baseline Expense Forecast Plus Fiscal Stabilization Expenses

($ in Millions)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Baseline Expense	$167.5	$177.5	$186.8	$188.4	$196.2	$198.0	$200.4	$202.8	$206.5	$210.0
Deferred Maintenance	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Technology/Workers Comp	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Phase-out Furloughs/Other	-	1.2	1.3	2.5	2.7	2.8	2.9	3.0	3.1	3.2
2% Salary/Health COLAs	-	-	-	-	2.4	4.9	7.5	10.2	12.9	15.8
Total Expense	167.5	180.7	190.1	192.9	203.3	207.7	212.8	218.0	224.5	231.0
Total Revenue*	158.8	156.2	155.0	156.0	158.4	161.4	165.0	168.7	172.6	176.5
Net Annual Shortfall	(8.7)	(24.5)	(35.1)	(37.0)	(45.0)	(46.3)	(47.8)	(49.2)	(51.9)	(54.5)

*Total revenue affected by negative interest resulting from lower balances than baseline budget.

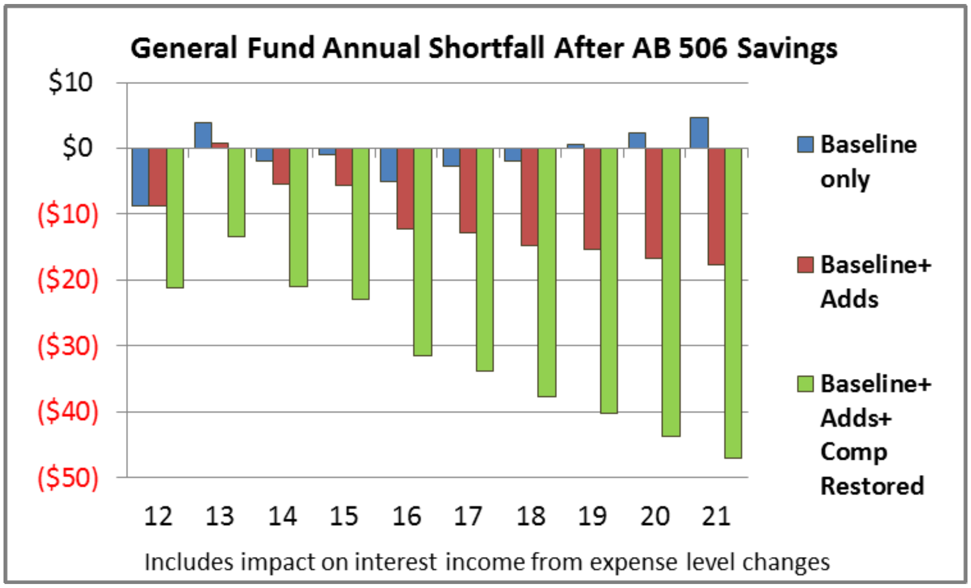
<u>Impact of Restoring Imposed Labor Cuts</u>: The impact of losing the pay and benefit imposition dispute currently in the courts is significant. If these cases were won by SPOA and SCEA, there is the back pay that would have to be restored, and the costs that would have to be added to the annual baseline budget going forward. Another exposure for all employee groups is whether the City's health contributions for employees -- currently frozen -- resume increasing at the high level of growth in medical premiums. The following table assumes (1) an annual increase of approximately $15 million in pay and benefit reductions either previously imposed or excluded from the baseline budget, during FY12-13 and FY13-14, and (2) growth in City's employee health contribution levels of 8% in the near-term, dropping to 6% over time, which also is not included in the baseline budget. Adding back these payroll costs to the baseline budget with fiscal stabilization expenses causes the net shortfall to jump to $21.2 million in FY11-12 (assuming $12.5 million in back pay and benefits would have to be paid by the end of the current fiscal year; actual resolution of the cases may take longer), rising to $38.5 million in FY12-13, and increasing rapidly to $84.4 million by FY20-21. The average annual shortfall from FY15-16 through FY20-21 is $73.5 million, compared to the $49.1 million of the baseline plus fiscal stabilization forecast.

General Fund Baseline Expense With Restoration of Pay & Benefit Cuts Plus Fiscal Stabilization

($ in Millions)	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
Baseline Expense	$167.5	$177.5	$186.8	$188.4	$196.2	$198.0	$200.4	$202.8	$206.5	$210.0
Pay/Benefits Restored	12.5	13.7	15.2	16.6	18.1	19.3	20.7	22.1	23.6	25.2
Fiscal Stabilization Expense	-	3.2	3.3	4.5	7.4	10.3	13.3	16.4	19.7	23.1
Total Expense	180.0	194.4	205.3	209.5	221.7	227.6	234.4	241.3	249.8	258.3
Total Revenue*	158.8	155.9	154.5	155.2	157.4	160.2	163.5	166.9	170.3	173.9
Net Annual Shortfall	(21.2)	(38.5)	(50.8)	(54.3)	(64.3)	(67.5)	(71.0)	(74.5)	(79.4)	(84.4)

*Total revenue affected by negative interest resulting from lower balances than baseline plus fiscal stabilization.

The following chart summarizes the three alternative levels of net annual shortfall.



City Actions to Balance Budget

The City already has undertaken significant actions to balance its recent budget. These include negotiating or imposing reductions in employee costs, which keep people employed to provide services to the public, and making position cuts and loss of jobs, which do reduce the level of service offered to the public. In each of the past two years, the City budget has contained a Plan A (more staffing/service cuts than labor cost cuts) versus a Plan B (more labor cost cuts than staffing/service cuts).

Labor Costs: The City's first steps to reduce pay and benefit costs started in 2008 with the imposition of furloughs. In the following years, the City offered early retirement incentives, and as the fiscal situation grew more desperate, furlough hours grew and planned salary increases were eliminated. In 2011, large reductions in current compensation/benefits were implemented. These cuts are governed by a 10-point "Action Plan for Fiscal Sustainability" adopted by the Council on 6/22/10. This policy guided subsequent labor negotiations, and consists of the following elements:

1. Reduce or eliminate "additional pay" categories; authorize only when absolutely essential to performing special job tasks; ensure all compensation packages are fully, accurately and simply costed out.
2. No side letters or past practices will be binding unless approved in public by Council.
3. No wage adjustments will be based on automatic inflators or formulae.
4. Strive to have all labor agreements expire at same time, particularly those with public safety unions.
5. Employees to make reasonable contributions to health coverage.
6. Health contributions to be based on lowest cost plan made available by the City.

7. Employees to pay entire employee PERS contribution, and cost-sharing agreements shall be negotiated to share the burden of City pension costs; a "second tier" pension benefit shall be negotiated for new hires.
8. Structure vacation use work rules to minimize overtime to backfill positions, limit accumulation of hours, and restrict cashouts.
9. Contacts to avoid inflexible staffing minimums and restrictions on management rights.
10. Bring overtime practice back in line with FLSA to minimize unneeded overtime.

The following highlights some of the changes either negotiated or imposed over the past four fiscal years for three of the largest employee groups:

- SCEA (2011 changes imposed via temporary imposed actions and subject to litigation to overturn)
  - Furlough starting at 80 hours in FY08-09, increased to 96 hours in FY09-10, FY10/11 and FY11/12
  - Forfeited COLAs of 2.5% at 7/1/10 and 2.5% at 7/1/11
  - Employees pay PERS share of 7% starting 8/1/11
  - Modifications to medical plan over past two years, including higher deductibles, medical design changes from 100% to 80%, and City share of premium capped at fixed dollar amount
  - 2011 temporary elimination of longevity 2.5% add pay and 3% education incentive pay

- Firefighters
  - Elimination of COLAs: 3.68% for 7/1/08, 8.5% for 7/1/09, no COLAs through 6/30/12 (4.5-8.5%)
  - Creation of second PERS tier for new hires (3%@55) 2011
  - Employees pay PERS share of 9% starting 8/1/11
  - Limits on numbers of staff qualifying for paramedic pay if not operationally required to act in that capacity (FY09-10)
  - Eliminated minimum staffing requirements (FY11-12)
  - Uniform allowance suspended in 2009, 50% reduction for 2010
  - Modifications to medical plan over past two years, including higher deductibles, medical design changes from 100% to 80%, and City share of premium capped at fixed dollar amount
  - Reduction of sick days from 15 to 12, reduction in vacation leave accruals, change in sick leave cashout at retirement, change in leave practice to reduce overtime in 2011
  - Eliminate longevity vacation benefits 2011
  - Eliminate tiller pay and unassigned paramedic pay for future employees 2011
  - Eliminated longevity pay and grandfathered in current incumbents with a 2.54% reduction in longevity pay in 2011
  - Eliminated Educational incentive benefit 3% effective August 2011
  - Agreed to waive all back pay damages from 2010 emergency actions

- SPOA (2010 and 2011 changes imposed via Emergency temporary imposed actions and subject to litigation to overturn)
  - 6.5% total furlough deduction for FY09-10, reduced to 3% starting FY10-11, FY11-12
  - Waive 2.5% COLA for 7/1/09
  - Reduce uniform allowance by 50% (FY09-10)
  - Suspension of 2% City deferred comp contribution and 2% City retiree medical savings plan contribution (FY10-11 and FY11-12)
  - Temporary suspension of master officer 5% pay and 3% education incentive pay 2011
  - Temporary suspension of longevity pay for new hires, temporary 5% reduction in Longevity Pay for incumbent employees 2011
  - Modifications to medical plan over past two years, including higher deductibles, medical design changes from 100% to 80%, and City share of premium capped at fixed dollar amount
  - Employees pay PERS share of 9% starting 8/1/11

Staffing & Service Cuts: In addition to significant reductions in labor costs, the City has been forced to make severe reductions in staffing and services. The table on the following page shows the major declines in City staffing levels since FY08-09, which include these overall impacts:

- General Fund sworn police officers are down 25% (another 20 officers are paid by grants which expire at the end of FY11-12; the City must retain these positions for one additional year and the resulting funding gap is part of the General Fund shortfall).
- General Fund fire staffing is down 30%.
- General Fund non-safety staffing is down 43%.
- Total City staffing is down 25%.

Because most General Fund expenditures are for public safety (75.7% in FY11-12), Stockton has had to make reductions in police and fire services despite the fact that the City ranks low in median income and high in total crime rate, factors that make public safety more critical than in most California cities. The following are important points relating to crimes rates and sworn staffing levels:

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City of Stockton Personnel by Fund

General Fund	08-09	09-10	10-11	11-12	Chng frm 08-09	Percent Change
Police-sworn	398	312	292	300	(98)	-25%
Police-non sworn	232	207	199	185	(47)	-20%
Fire	253	265	226	177	(76)	-30%
Subtotal Safety	883	784	717	662	(221)	-25%
Public Works	163	78	59	62	(101)	-62%
Library	105	69	57	57	(48)	-46%
Recreation	46	32	27	26	(20)	-43%
Administration	157	123	125	123	(34)	-22%
Subtotal Non-Safety	471	302	268	268	(203)	-43%
Total General Fund	1,354	1,086	985	930	(424)	-31%
Other Funds						
Police-Grants	6	17	31	25	19	317%
Police-Measure W	28	23	20	20	(8)	-29%
Fire-Measure W	40	22	21	21	(19)	-48%
Fire-Emergency Communica	17	-	-	-	(17)	-100%
Development Services	98	53	50	42	(56)	-57%
Street Maint/Gas Tax*	24	65	66	64	40	167%
Other Special Rev/Districts	48	46	37	28	(20)	-42%
Enterprises	171	189	199	208	37	22%
Internal Service	100	83	84	82	(18)	-18%
Total Other Funds	532	498	508	490	(42)	-8%
Total All Funds	1,886	1,584	1,493	1,420	(466)	-25%

*Gas Tax absorbed employees shifted from General Fund

- The City of Stockton has the highest total crime rate per capita for any city with a population of 100,000 or greater in California.
- While violent crime rates dropped 5.5% nationwide in 2010, they were up in Stockton, which ranked 10th in the U.S. with 13.81 violent crimes per 1,000 residents.
- Despite this high service demand, budget cuts have reduced sworn police staffing from 1.52 per 1,000 residents in 2005 to 1.16 currently, the lowest ratio in the country for cities over 250,000 population.
- The City has a lower level of sworn police staffing than has been recommended by experts or which is observed in other similar service settings. The 2006 Braga study recommended sworn officer staffing levels at 2.0 per 1,000 residents, which would require the addition of 248 police officers; at $150,000 per position and assuming a minimal 30% overhead in support staff, equipment and supplies, this would cost $48 million annually.

These low staffing levels have had the following significant impacts on the level of Police Department services available to the community:

- A "condition blue" is currently activated during times of peak activity where the department responds only to crimes-in-progress.
- School Resource Officer Program has been eliminated (School Resource Officers are only available on a contract basis to the school districts that are able to pay).

- Gang and Drug Missions have been reduced to only those funded with grants or outside agencies.
- Gang Street Enforcement Team (GSET) has been eliminated.
- Narcotics Enforcement Team has been eliminated (also reduces the funds received through disposition of asset forfeiture proceeds).
- Significant cutback has been made to Proactive Policing (strategy is employed only on a case-by-case basis).
- Downtown Bike Patrol and Police equestrian programs have been eliminated.
- The ability of Community Service Officers to respond to non-emergency accidents and calls for service had been significantly reduced and office support for traffic section and parking enforcement eliminated (which has reduced service and lowered Traffic Division revenue).
- Security Camera monitoring has been eliminated (which was used as a force multiplier for the downtown and 66 other target areas in Stockton).
- Support has been eliminated for the Neighborhood Renaissance Program (University Neighborhood and future areas), and neighborhood meetings and committees (Downtown Alliance, Miracle Mile Improvement District).
- Non-mandated training has been eliminated, and the capability of conducting reimbursable and grant-funded training has been reduced.

In the Fire Department, 48 sworn positions were eliminated. This lowered daily line staffing from 75 to 57 by closing one engine company (12 remaining, with staffing reduced from 4 to 3 per engine) and one truck company (three remaining, with staffing reduced from 5 to 4 per truck). One of the City's 14 fire stations was closed.

The steep decline in building activity forced the City's Development Services Fund to eliminate 57% of its staff, with 45 of the eliminated 56 positions coming in FY09-10.

The City has been unable to dedicate sufficient dollars to regular and periodic maintenance for public infrastructure. Public Works staff estimates there is an immediate need for $18 million for critical catch-up items for trees, parks and buildings, and going forward $15 million a year for pavement, parks, trees and buildings. By comparison, the General Fund currently contributes just $575,000 annually to capital improvements.

Library services were reduced with the closure of all City branches on Sundays and a 26% overall reduction in hours. Customer services and literacy programs in the libraries have been reduced due to the loss of staff positions, and there are fewer books and library materials available to the public. Specific reductions in library services include the following:

- Books and materials purchases were cut by 60% or $428,000 from General Fund.
- Homework Center Grants were suspended (the program was offered to elementary and middle school students with low grade point averages and limited opportunities which put them at educational risk).
- Open hours were reduced by 30% in City branches and 23% in County branches.
- Mobile Library hours were reduced.
- Branches were closed on Sundays and overall hours cut 10-15/week.

Additionally, the City has made significant cuts in its Community Programs:

- The McKinley Community Center was closed to the public in 2009; most of the recreation programs were moved to other community centers, so residents have to travel further to participate in these recreation opportunities.
- Operating hours at all other community centers were reduced by 20%.
- Fewer recreational classes were made available to the community.
- Hours of operation at the Children's Museum, Pixie Woods amusement park, and Oak Park Senior Center were also decreased.
- The McKinley swimming pool was closed.
- The closure of Silver Lake Family Camp was recommended, but a local citizens group worked with the City to keep the facility open with minimal City funding.
- After School Program (ASP) sites were consolidated, resulting in reduced programs for at-risk youth.

Because of these factors, the City enters the AB 506 process with service levels which are decidedly below industry standards, and with a work force which has been depleted by staff reductions and which has incurred significant compensation reductions either via negotiations or by imposition. This latter factor is exacerbated by the fact that the City has had no choice but to pay higher costs for pension obligations for current employees and health care benefits to retirees.

AB 506 Framework for Proposals to Creditors

The City's framework for the AB 506 process is two-fold:

1. Avoidance of cash insolvency and bankruptcy requires substantial reduction in the City's obligations. The end result of restructuring must be a sustainable local government delivering services in a predicable manner and which is solvent on both a budgetary and service delivery standpoint.

2. Additionally, principles of fairness and equity form the foundation of our proposals taking into account factors such as the security for obligations A more detailed set of guiding principles have been created for the overall proposal and each of the individual proposals, as described below.

General Principles

1. The result of this process will be a sustainable City government that provides for the health, safety and welfare of the community.
2. The City will achieve financial stability over a period of at least ten years with all costs of services covered and appropriate reserve levels maintained with recurring revenues.
3. In realigning expenditures with the resources available, the City will attempt to balance what is asked of interested parties in an equitable manner consistent with the priority being placed on continued delivery of basic and satisfactory municipal services.

Principles Specific to Labor Proposals

1. Compensation reductions have been instituted in the past several years, along with substantial reductions in staffing, and therefore labor's share of reductions will be less than other creditors. However, temporary emergency concessions imposed for SPOA and SCEA need to be made permanent as they are with other bargaining units, and any back pay damages need to be waived by SPOA and SCEA.
2. Compensation and benefits will be competitive within the market in order to recruit and retain employees. The goal is to maintain compensation at or near the labor market median or average.
3. The priority for the City's labor dollars will be focused on existing employees to support service delivery, rather than retirees.
4. Compensation must be affordable over the long term and will include a prefunding component for post-employment benefits.
5. Furloughs will be eliminated in order to provide City services. Furloughs were intended to be a temporary cost cutting measure, not a permanent one.

Principles Specific to Retiree Medical Proposals

1. Retiree medical benefits taken on by the City in the 1990's are simply not affordable or sustainable given current economic realities without devastating current City services.
2. Retiree medical benefits will be considered relative to industry standards and the labor market, where many agencies do not provide retiree medical benefits.
3. In determining what if any benefit can be made to retirees, the priority will be for the retiree who actually worked for the City, rather than dependents, and should take into consideration length of service.

Principles Specific to Debt Proposals

1. Debt taken on by the City in the 2000's is simply not supportable given current economic realities without devastating current City services, so adjustments must be made.
2. Due to the City's dire financial situation and long-term forecasts, the City seeks to eliminate the obligation for all unsecured debt except in some cases where legally payable from non-General Fund sources.
3. The City seeks to eliminate the General Fund backstop and shift the burden by pledging other internal sources of repayment where applicable.
4. The City seeks to eliminate all General Fund debt service payments for a minimum of five years.
5. Provide a specific plan for each debt issue which includes:
    a. A schedule of payments until maturity, showing both interest and principal,
    b. A calculation of payment differential and fiscal impact.
    c. Any non-General Fund payment sources

6. Establish debt service payments at a level the City can afford to pay over time without placing essential service at risk of further cutbacks.

<u>Principles Specific to Other Contract Proposals</u>

1. Reduce or eliminate non-essential costs and subsidies related to contracts for entertainment facilities.
2. Eliminate expenditures related to legal settlements and potential liabilities that reduce available funding for services that benefit the community that are not consistent with the market.

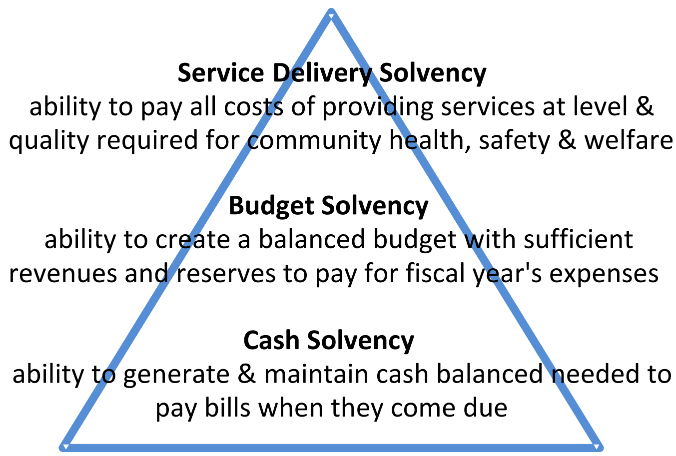
Financial Objectives

In the staff report presented to the City Council on 2/28/12, expenses were projected to exceed revenues in FY12-13 within a range of $20 million to $38 million, based on a four-year financial plan prepared by staff. The main difference between those estimates was whether cost reductions keyed to imposition of contract terms under the financial emergency resolutions are, or are not, continued. The $20 million level assumed that all compensation reductions made pursuant to fiscal emergencies stayed in place permanently. This does not include the dollar value of the City losing the legal challenge for the 2010 (SPOA) and 2011 (SPOA and SCEA) emergency actions imposed (total risk of $12.5 million through FY11-12, with annual ongoing costs of $13.7 million starting in FY12-13, and another $1.2 million added in each of the following two fiscal years. These monies have not been added to or planned for in the deficit projections. The savings from these past actions are part of this proposal, but the agreement by employees to waive restoration of those past concessions does not reduce the City's problem; it only avoids making it worse.

Management Partners has prepared a long-range budget forecast that builds upon the staff's original four-year plan. After updating various revenue and expense estimates, the FY12-13 shortfall (assuming the imposed labor reductions remain in place) now stands at $24.5 million, and the ongoing annual shortfall grows to an average of $34.5 million. This is a "baseline budget" representing the status quo -- the cost of continuing to perform the current level service with the current level of staffing. Key assumptions included in this baseline budget forecast are:

- A moderately conservative revenue recovery, with near-term property tax and sales tax revenues estimated by HdL, the City's tax auditor
- Significant improvement in local housing market not expected until 2017.
- Continuation of the contract terms imposed under the financial emergency resolutions
- No salary COLAs
- No change in staffing levels and no rescinding of previous cutbacks.
- PERS rate increases based on CalPERS estimates, and retiree medical cost increases based estimates from Segal, the City's employee benefits actuary

However, the principles that underlie our proposals include returning the City to a financial sustainability, with adequate funding for maintenance of infrastructure and the organization. In determining sustainability, the City must be solvent on three levels: cash, budget and service delivery, as shown in the following solvency "pyramid".



It is clear that returning the City to sustainability is a larger issue than just closing the baseline budget gap shown previously, because that only addresses cash solvency at the status quo level. The baseline budget does not include some very real cost increases related to the City's long-term "fiscal stabilization":

- Returning staff to a full-time work schedule through the end of furloughs.
- At an appropriate time, granting annual salary COLAs in an effort to stay competitive within the labor market.
- Beginning to fund some deferred maintenance to avoid more costly repairs later.
- Increasing the investment in technology that will be required to increase productivity and to replace very old systems that are not being supported by vendors and are at risk of breaking down.
- Restoring workers compensation and other reserves over time to the actuarially-sound level for the expected value of outstanding losses.

The following table shows the first ten years of the General Fund baseline budget forecast <u>after</u> adding the fiscal stabilization expenses noted above (but before the impact of the City's AB 506 proposals): it results in an adjusted shortfall of $24.5 million in FY12-13, rising to $54.5 million by FY20-21. This represents a truer picture of the shortfall facing the City, because it includes the type of expenses, albeit at a low level, that a sustainable city should have to meet to achieve budget solvency.

General Fund Baseline Budget Forecast With Fiscal Stabilization Expense Before AB 506 Savings ($ in Mil.)

Baseline Budget:	**11-12**	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Total Revenue	158.8	156.2	155.0	156.0	158.4	161.4	165.0	168.7	172.6	176.5
Total Expense	167.5	177.5	186.8	188.4	196.2	198.0	200.4	202.8	206.5	210.0
Net Shortfall	(8.7)	(21.3)	(31.8)	(32.4)	(37.9)	(36.6)	(35.4)	(34.1)	(33.9)	(33.5)
Fiscal Stabilization:										
Deferred Maintenance	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Technology/Workers Comp	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Eliminate Furloughs/Other	-	1.2	1.3	2.5	2.7	2.8	2.9	3.0	3.1	3.2
2% Salary/Health COLAs	-	-	-	-	2.4	4.9	7.5	10.2	12.9	15.8
Total Added Expense	-	3.2	3.3	4.5	7.1	9.7	12.4	15.2	18.0	21.0
Shortfall After Adds to Baseline	(8.7)	(24.5)	(35.1)	(37.0)	(45.0)	(46.3)	(47.8)	(49.2)	(51.9)	(54.5)
2/28/12 Council Actions	15.2	-	-	-	-	-	-	-	-	-
Beginning Available Balance	(6.6)	-	(24.5)	(59.6)	(96.6)	(141.5)	(187.8)	(235.6)	(284.8)	(336.8)
Ending Available Balance	(0.0)	(24.5)	(59.6)	(96.6)	(141.5)	(187.8)	(235.6)	(284.8)	(336.8)	(391.2)

The City needs sufficient savings to close the General Fund budget gap shown above, while maintaining an available fund balance of at least 10% of total expense. This level of reserve is critical if the City is to absorb revenue losses from the future economic downturns that will inevitably occur, deal with unexpected jumps in pension or health costs, and handle other contingencies that arise, without plunging the City back into a cash solvency crisis. While we will have to ease into this rebuilding consistent with the City's ability to fund it, we must plan for a sustainable future.

For additional information on baseline budget forecast and fiscal stabilization additions, see Attachment 1. For the impact of the City's AB 506 proposals, see "Summary of AB 506 Proposals" on page 57.

Labor Proposal

The City has negotiated and imposed many pay and benefit reductions on our existing employees. Attachment 2 shows the history of pay and benefit cuts by labor group for FY08-09 through FY11-12, and the reduction in staffing levels since FY08-09. Additionally, the City must remain a competitive employer. Together, these facts constrain the amount the City can ask labor to contribute to solving our problems. The Labor proposal is summarized below. Attachment 3 provides the actual detailed proposal for each labor group and reflects the actual proposed language changes in compensation and practices the City is making as part of this process.

Imposed Compensation Reductions

One of the objectives of the proposal created for labor is to lock in the compensation adjustments imposed by the City through its fiscal emergency actions. The following table shows the value of items imposed on labor groups imposed during 2010 and 2011 through the entire contract period. The amount contested to date is $16.9 million for all funds, of which $12.5 million is from the General Fund. Due to the continuation of the SCEA contract through 6/30/14, the amounts affected will grow to $32.7 million for all funds, of which $19.6 million will be from the General Fund. The baseline budget already assumes these amounts are not paid. The proposal in this case is to forego the claims on these amounts so the City does not have to make these payments and thereby further worsen its financial condition.

Portions of Labor Proposal Already Included in Baseline Budget: Value Through End of Contract for Amounts Previously Imposed

Proposals (rounded to nearest thousand dollars)	All Funds	General Fund
SPOA-waive claims to damages from 2010 & 2011 imposed changes through FY11-12 (end of contract is 6/30/12)	$10,111	$8,843
SCEA-waive claims to damages from 2011 imposed changes through FY11-12	6,796	3,704
Total Claim to Damages Through FY11-12	16,907	12,548
SCEA-waive claims to damages from 2011 imposed changes through remainder of contract (6/30/14)	15,835	7,048
Grand Total Claims Through Remainder of Contracts (Savings Already Included in Baseline Budget)	32,742	19,596

The next table shows the value of items proposed to be eliminated during 2012, 2013 and 2014 from imposition through the end of the applicable contracts. The baseline budget already assumes these amounts are not paid because they are increases in the current level of pay and benefits. The proposal in this case is to agree to eliminate these items (deferred comp and salary COLAs) so the City does not have to make these payments and further worsen its financial condition.

Portions of Labor Proposal Already Included in Baseline Budget: Value During Remaining Term of Current Contracts for Increases in Pay and Benefits Proposed to Be Eliminated

Proposals (rounded to nearest thousand dollars)	All Funds	General Fund
SCEA, B&C. Waive claims to 2012 increases through balance of contract period (2.5% COLA on 7/1/12 and added 1.5% deferred comp)	3,322	1,514
SCEA, B& C. Waive claims to 2013 increase through balance of contract period (2.5% COLA on 7/1/13)	1,240	613
SCEA, B& C. Waive claims to 2014 increase through balance of contract (2.5%COLA on 6/30/14, the last day of the contract) (1)	5	2
Total Pending Increases Proposed to be Eliminated (Savings Already Included in Baseline Budget)	4,567	2,129

(1) adds virtually no cost within contract period, but increases annual General Fund costs by $544,000 starting FY14-15 after the current contract expires

The baseline General Fund budget assumes that savings continue from items already imposed, and that pay and benefit increases in current MOUs that have not yet occurred are eliminated; achieving this outcome does not reduce the baseline expense. <u>However, failure to achieve this outcome will increase General Fund expense in FY12-13 by $13.7 million, and those COLAs and increased deferred compensation scheduled on 7/1/13 and 6/30/14 will add another $1.2 million in annual expense in each of the following two fiscal years, for a total of $16.1 million</u>.

New Labor Cost Reduction Proposals

The estimated total of the labor proposal for <u>new</u> items on an annualized basis, not included in the baseline budget, is $6.3 million, of which $4.8 million benefits the General Fund. This includes proposals reflecting things that are above the labor market average but were left on the table in order to reach agreement during the last round of bargaining. However, via AB 506 we are pursuing long term fiscal sustainability.

Also related to long-term sustainability is the City's desire to eliminate the current furlough over a three-year period. This will be part of the labor proposal, although it is a cost increase, not a cost savings, as the baseline budget assumed the current furlough level would be ongoing. However, it is necessary for efficient operations that the furlough be phased out. Since this will impact working conditions, it will need to be negotiated with employees, although it will result in additional compensation.

The following table summarizes the savings in FY12-13 of additional labor proposals that would reduce costs from the level in the current baseline budget, to generate a total of $6.3 million for all funds, of which $4.8 million comes from the General Fund. Due to proposed phasing in of three items, an additional $448,000 in savings would be realized in FY13-14.

Labor Proposal Savings That Reduce Baseline Costs in FY12-13

Proposals (rounded to nearest thousand dollars)	All Funds	General Fund
Eliminate workers comp pay supplement	300	150
Phase out grandfathered Longevity Pay over two years (1)	438	292
Eliminate extra 5% SPOA Sgt Longevity pay	223	195
Phase out SPOA Longevity Pay balance over two years (1)	1,348	1,178
Phase out grandfathered Fire Add Pays over two years (1)	60	54
Fire/Fire Mgt reduction in add pays over labor market	336	288
SPOA reduce add pays over labor market	92	81
Reduce city-paid life insurance	191	159
Change city-paid long term disability insurance	441	243
Reduce city holidays by one to survey average	334	299
Separation pay: Eliminate sick leave cash out at separation	1,639	1,295
Change overtime calculations and practices	733	526
Eliminate RMT contributions to B&C, OE3 and SCEA	144	53
Total Labor Proposals That Reduce Baseline Costs	6,280	4,812

(1) Additional General Fund savings of $488,000 realized in FY13-14 from phase-out of benefits.

AB 506 Proposals

1. <u>Furloughs. All Units but Fire and Fire Management. Propose for FY12-13 and FY13-14, a 6-day or 48-hour furlough in both years be implemented. All furloughs would be eliminated in FY14-15</u>. The City has had a 96-hour furlough (60-hour for POA) for a number of years. As part of an attempt to return to normal service levels, the City is proposing additional furloughs, but at a reduced amount in order to phase out of the practice. This 6-day furlough would be implemented in same manner as the FY11-12 furlough. For non-24-hour operations, closure would be in December each year. The baseline budget assumes the current level of furloughs is ongoing, so phasing them out will be a cost to the City, not a savings. This impact is shown in the budget forecast as an added “fiscal stabilization” expense.

2. <u>SPOA waives all claims for concessions/damages imposed in emergency actions in 2010 and 2011. Make permanent all the 2010 and 2011 compensation and benefit changes temporarily imposed in emergency actions. Effective July 1, 2012</u>. These amounts are the dollar value of the concessions or increases being waived. <u>They are not budgeted, and thus are not included in the projected structural deficits for FY12-13 and thereafter</u>.
   - Elimination of 2010 and 2011 pay raises
   - Elimination of 3% Education Incentive Pay
   - Elimination of 5% of SPOA Longevity pay
   - Elimination of 5% Master Officer Pay

- Employees pay own PERS payment of 9%
- Cap on City contribution to medical plan
- Change in medical benefit design in Modified Plan
- Elimination of City payment for Retiree Medical Trust 2%
- Change in uniform allowance to $950
- SPOA deferred compensation payments of 2% (2010 and 2011)

Total Savings FY10-11 & FY11-12:	$10,111,177 All	$8,843,326 GF
Total Savings in FY12-13:	$10,418,752 All	$9,529,820 GF

3. SCEA waives claims from 2011 actions through balance of existing contract term. Make permanent all the 2011 compensation and benefit changes temporarily imposed in emergency actions. Effective July 1, 2012. These amounts are the dollar value of the concessions or increases being waived. They are not budgeted, and thus are not included in the projected structural deficits for FY12-13 and thereafter.
   - Elimination of 2.5% 2011 COLA raise
   - Elimination of 3% Ed. Incentive Pay
   - Elimination of 2.5% Longevity Pay
   - Employees Pay own PERS payment of 7%
   - Cap in city's contribution for medical plan
   - Change in medical benefits design in Modified Plan

Total Savings in FY11-12:	$5,312,538 All	$3,015,581 GF
Total Savings in FY12-13:	$7,917,427 All	$3,524,119 GF
Total Savings in FY13-14:	$7,917,427 All	$3,524,119 GF

4. B&C and SCEA. Bargaining units waive all claims for 2012 increases through balance of existing contract term. These amounts are the dollar value of the increases being waived: a 2.5% COLA on 7/1/12 and a 1.5% increase in deferred compensation.

General Fund Impact of 2012 MOU Changes

(rounded to nearest thousand dollars)	FY12-13	FY13-14	Thru End of Contract	FY14-15
2.5% COLA	518	518	1,037	518
1.5% Deferred Comp	239	239	477	239
Totals	757	757	1,514	757

They are not budgeted, and thus are not included in the projected structural deficits for FY12-13 and thereafter.

Savings in FY12-13 & FY13-14:	$3,332,000 All	$1,514,038 GF
Annualized Savings in FY14-15:	$1,661,039 All	$757,019 GF

5. B&C and SCEA. Bargaining units waive all claims for 2013 increases through balance of existing contract term. These amounts are the dollar value of the increases being

waived: a 2.5% COLA on 7/1/13. This is not budgeted, and thus is not included in the projected structural deficits for FY12-13 and thereafter.

Savings in FY12-13 & FY13-14:	$1,239,979 All	$612,845 GF
Annualized Savings in FY14-15:	$1,239,979 All	$612,845 GF

6. B&C and SCEA. Bargaining units waive all claims for 2014 increases through balance of existing contract term. These amounts are the dollar value of the increases being waived: a 2.5% COLA on 6/30/14. This is not budgeted, and thus is not included in the projected structural deficits for FY12-13 and thereafter. Note that by increasing salaries on the last day of the contract (and last day of the fiscal year) there is virtually no impact during the contract period, but it increases the amounts paid by the City if FY14-15 and thereafter, so the impact is noted below).

Savings in FY13-14:	$4,559 All	$2,095 GF
Annualized Savings in FY14-15:	$1,185,301 All	$544,577 GF

7. SPOA, Stockton Police Management Association (SPMA), OE3 Trades. B&C and SCEA. Propose structural changes to reduce future costs that were previous made in 2011 for Fire, Fire Management, Operations, Water Supervisors, and Unrepresented groups.)
    - Change/reduce vacation accruals, establish maximum caps and annual cash outs to same as other units
    - Reduce number of sick leave days from 15 to 12
    - SPOA, SPMA and SCEA only .New Retirement Tier for new hires. The new tiers are 3@55 for safety and 2@60 for miscellaneous, with no additional benefits added (B&C and Trades already agreed in 2011)
    - SPOA and SCEA only. Eliminate all forms of retiree medical for all employees hired 7/1/11 same as other units. (SPMA, B&C and Trades has already agreed in 2011)
    - Trades, B&C and SCEA only. Eliminate City-paid salary supplement for employees on workers compensation. (OE3 Operations and Water Sup. already agreed)

    Most of savings from these changes are long term or limit growth of current liabilities. There is 2-3% cost savings from retirement change as new hires are made. There is an immediate savings of approximately $300,000, $150,000 GF from eliminating salary supplement to workers compensation.

Savings in FY12-13:	$300,000 All	$150,000 GF

8. Eliminate Longevity Pay grandfathered over 2 years. Propose in FY12-13 that 50% of pay is eliminated July 1, 2012 and the balance is eliminated on July 1, 2013.
    These unions agreed to eliminate Longevity Pay going forward, but the parties agreed that incumbents currently receiving it would keep it. Fire, Fire Mgt. and Unrepresented. Police and Fire longevity was reduced by 2.5% as well for incumbents.
    - Unrepresented $80,016 All $37,927 GF

• Unrep Police 7.5%	$20,202 All	$20,202 GF
• Unrep Police 3.5%	$8,923 All	$8,923 GF
• B&C	$150,541 All	$34,474 GF
• Fire Mgmt. 2.5%	$22,360 All	$22,360 GF
• Fire 2.5%	$158,323 All	$141,857 GF
• Fire/Fire Mgt.2.5- 8.75%	$154,591 All	$140,643 GF
• SPMA 1.2%	$3.013 All	$3,013 GF
• SPMA 3.5%	$95,724 All	$95,724 GF
• SPMA 5.5%	$56,942 All	$56,942 GF
• Trades	$71,299 All	$21,869 GF
• O&M	$46,663 All	$0 GF
• MUD	$7,473 All	$0 GF
100% Savings in FY13-14:	$876,070 All	$583,934 GF
50% Savings in FY12-13:	$438,035 All	$291,967 GF

9. <u>SPOA Longevity. Effective July 1, 2012</u>
    - Eliminate extra 5% Longevity Pay for Sgts. $223,040 All $194,937 GF
    - Eliminate SPOA Longevity Pay by reducing balance of SPOA Longevity to same as grandfathered Fire amounts of 1.25% at 15 yrs. and 4.37% at 22 years effective July 1. 2012. Eliminate remainder of SPOA longevity effective July 1, 2013.

Savings in FY12-13:	$1,348,183 All	$1,178,312 GF
Savings in FY13-14:	$1,478,610 All	$1,292,305 GF

10. <u>Fire and Fire Management only: These Add Pays were eliminated in 2011, but current incumbents retained ADD Pay</u>. This proposal eliminates this ADD pay for incumbents by reducing by 50% of ADD Pay amount effective July 1, 2012 and eliminating balance effective July 1, 2013.

• Tiller pay	$60,124 All	$53,871 GF
• Unassigned Paramedic Pay	<u>$59,654 All</u>	<u>$53,450 GF</u>
100% Savings in FY13-14:	$119,778 All	$107,321 GF
50% Savings in FY12-13:	$59,889 All	$ 53,661 GF

11. <u>Fire and Fire Management only: Reduce Add Pays over the survey average.</u>
    - Ed. Certificate Pay. This is a pay for completing a certain number of classes. City pays over market at 3.6% compared to the survey average of 4.6%. Reduce 6% certificate pay by 1%.

Savings in FY12-13:	$146,543 All	$131,112 GF

- Eliminate Paramedic Pay for Fire Mgt. 3%.

Savings in FY12-13: $37,484 All $37,484 GF

- Reduce Paramedic Pay. Reduce 11% Add Pay to 9%.

  Savings in FY12-13: $59,086 All $52,941 GF

- Paramedic Pay for unassigned captains. Change to unassigned rate.(Savings: unable to calculate at this time)

- Adm. Assignment Pay. Reduce current pay to 10%. City pays 19.67% (6.3% from 2011 to fix 40-hour workweek, 10% in MOU and 3.33 not in MOU).

  Fire Mgt. Savings in FY12-13: $24,255 All $12,474 GF
  Fire Savings in FY12-13: $68,968 All $54,474 GF

- Continuing Ed. Pay as overtime. Add language to control cost by requiring approval of Chief before costs incurred. (Savings may already have been achieved.)

12. <u>SPOA. Reduce Add Pays over labor market</u>
    - Eliminate PERS credit for Professional Growth

      Savings in FY12-13: none none

    - Motorcycle Add pay is 6.9% per MOU (paid as overtime as # of hours paid). The survey average is 3%. Reduce by 3.9%.

      Savings in FY12-13: $49,708 All $43,246 GF

    - SWAT Add pay is 4.3% per MOU (paid as overtime as # of hours paid). Survey average in both surveys 3%. Reduce by 1.3%.

      Savings in FY12-13: $34,758 All $30,240 GF

    - Eliminate $2 a month City payment for legal defense fund for all employees.

      Savings in FY12-13: $7,608 All $7,056 GF

13. <u>All units. City Paid Life Insurance. Reduce face value amount of life insurance for all groups to $50,000 only ($50k is federal limit for untaxed life insurance benefit)</u>

    Savings in FY12-13: $190,546 All $158,788 GF

14. <u>All units City Paid LTD.</u>
    - All Units on City Plan. Change 30 day waiting period to 90 days. Current cost rate (does not include fire, fire mgt. and POA) is 1.35% of payroll.

      Savings in FY12-13: $388,752 All $194,376 GF

- SPOA, Fire and Fire Management not on City LTD Plan. Change how LTD is paid for Fire, Fire Mgmt. and SPOA by making payment not be part of salary. Instead of these groups being on City Plan, City pays $17 a month for Fire/ Fire Mgmt. and $20 a month for SPOA as salary. Employees then pay for own LTD plan. Because City pays this as salary, it must also pay full roll up on these amounts. City cost for benefit is $113,352 but additional roll up costs City $68,000. Change back to previous practice of making separate non-salary payments for LTD.

Savings in FY12-13:	$52,709 All	$48,554 GF

15. <u>Unrepresented Management. and B&C. Eliminate lifetime medical insurance benefit for family of deceased employees.</u> The City has been providing a full lifetime paid medical to the family of management employees who die while employed. There is no minimum years of service the employee has to have worked for Stockton to qualify for this benefit, the death does not have to be job related and there are no rules about how the benefit is administered (spouse still receives it if remarried). No agencies provide this. This elimination does not apply to safety employees who die in the line of duty, which benefit is a state requirement regulated by state law. The City is reimbursed by the State of California for those costs for safety employees. Current cost for non-safety $45,000 a year. (Savings: included in retiree medical plus future avoidance of new costs.)

16. <u>All units. Holidays</u>
    - Reduce number of holidays by one to survey average:

SPOA based on paid holidays	$119,562 All	$104,019 GF
SPMA based on holidays paid	$16,480 All	$16,480 GF
Fire/Fire Mgt. reduction in salary for holiday	$197,884 All	$178,095 GF
SPOA standby on holidays reduced		unable to calculate
SPOA overtime on extra holiday worked		unable to calculate
All other units.	No dollar savings but 8 hours increased productivity	
Total savings in FY12-13:	$333,926 All	$298,594 GF

    - Eliminate language in MOUs that automatically turn any days declared by governor or president as holidays. Most agencies either do not have this language, or they require City Council ratification. Already removed for Fire and Fire Mgt. (Savings: future cost avoidance.)

    - Clarify that the hour value of one holiday is 8 hours of paid time off. Change all language that is in conflict with this. Eliminate language that grants higher number of hours for holidays. (Savings: not able to calculate, but increased productivity by reduction of excess holiday hours being granted.)

17. <u>All units except for OE3 Trades. Eliminate cash out of unused sick leave hours at separation effective February 16, 2012.</u> In 2010, the City eliminated cash outs of sick

leave at separation for the OE3 Trades unit. In 2011, the City instituted changes with Fire, Fire Mgmt., O&M, Water Sups and Unrepresented to freeze the value of cashed out sick for current employees as of June 2011 and eliminated cash outs for new hires. The annual cost for sick leave cash out at separation has ranged from $1.6 to $5.6 million and there is $20 million in liability on the books as of June 2011. Retiring employees will still be able to use their sick leave balances for retirement service credits with. (See Attachment 5 for survey of comparison cities' sick leave cash out policies.)

Total savings in FY12-13: $1,638,883 All $1,294,717 GF

18. <u>All units. Family sick leave use</u>.
    - Reduce available sick leave hours for family illness from current of all hours available to state required amount of 50% of annual accrual of sick leave. City allows most units to use all or majority sick leave hours for family use. State law and vast majority of survey agencies limit it to 50% of annual earned sick leave of 12 days a year. Cost of family sick leave is $935,449 in FY10-11, not including OT to cover for absences. (Savings: not known since we don't know individual usage; likely to reduce abuse in individual situations.)

    - Change definitions of family in sick leaves to be consistent in all units. Inconsistent definitions in MOUs make administration difficult. (Savings: none, but adds consistency of application.)

19. <u>All units. Control sick leave abuse. Make changes to MOU language to give departments tools to control potential abuse. Eliminate requirement that departments can only ask for a doctor's note after three consecutive days off</u>. Sick leave use average in FY10-11 was 101 hours or 12.6 days per employee of the 15 days they were earning each year. Highest use is Fire at 250 hrs. (up from 142 in previous year). Departments cannot ask for proof of sick unless employee has been off three consecutive days. (Savings not known. Depends on how departments better manage time off.)

20. <u>All units. Vacation /Holiday Pay at separation</u>. Propose that effective February 16, 2012, for a period ending July 1, 2014, employees who leave before that date will receive a payout of leave balances as follows: one-third or $10,000 whichever is greater at separation, one-third or $10,000 whichever is greater at one year from their separation date, and the balance at two years from their separation date. Most employees' vacation balances are under $20,000, and many are under $10,000, so most employees would have their full pay out within 1 year. Employees separating after July 1, 2014 would receive their full payment at separation. (Savings: No ongoing savings, but improved short-term cash flow.)

21. <u>All units. Workers compensation</u>. Propose change in past practice/MOUs to allow for City designated doctors for workers compensation illness or injury unless the employee has pre designated before illness or injury. (Savings. Not able to calculate; any savings would be in the Workers Compensation Fund.)

22. Overtime. Implement changes to compensation or practices that impact amount of overtime paid or are over market. Current City overtime costs approximately $10 million in 2011.

- All units. Change time off hours paid for jury duty to actual hours from part/full day minimum. (Savings: Not able to estimate; would result in increased productivity.)

- All units. Change calculation of how overtime is paid to federal statuary required hours worked rather than City MOU agreement of all hours paid. Change will reduce costs of overtime and also will make it more difficult to abuse overtime. Savings estimated from payroll at $250,000 POA, Fire at least $150,000, others not sure. Difficult to calculate actual savings with current payroll system.
  Total savings in FY12-13: $400,000 All $368,750 GF

- Fire and Fire Management Units. Change FLSA Fire 7 K exemption from 28 day work week period schedule to 24 day work week period. Firefighters work a 56-hour workweek and under FLSA can use a longer workweek period than 7 days to calculate when overtime is owed to an employee. Some times with Fire schedules part of normal work hours ends up having to be counted as overtime hours under FLSA even with the longer FLSA allowed period. Several years ago, the Fire Department changed the fire work schedules but did not change the language in the MOU regarding the FLSA work period. Cost savings is an estimate.
  Total savings in FY12-13: $30,000 All $27,000 GF

- SPOA /SPMA. Change Call Back minimums to 2.45 hours. Call back is the minimum number of hours the employee will get paid when he/she is required to return to work overtime. Currently 2.45 hours is the minimum for SCEA, O& M and other groups except for SPMA and SPOA, which is three hours. Savings cannot be calculated at this time. Due to City's record keeping not sure how much of time listed is just the Call Back minimum versus actual hours worked, so not sure how to estimate actual savings from SPOA and SPMA. Costs in FY10-11 were $1,750,000 for Call Back for these two groups. (Savings: Not able to calculate with available records.)

- SPOA. Change Call Back minimum number of hours paid for court appearances to 3.0 hours. SPOA's MOU also provides a separate Call Back minimum for court appearances on days off. Current minimums are between 3 hours to 7 hours. This is over the survey average of 2.25 hours, and most other agencies do not have a different call back for court. Current SPOA costs for court related Call Back is $350,000 a year, and a rough estimate is for 10% savings.

  Total savings in FY12-13: $35,416 All $33,114 GF

- All units. Eliminate double payment of Call Back Paid Time, Regular Overtime and Standby Pay. Discontinues practice of paying Standby Pay for hours that are being paid as overtime or Call Back. Currently City employees on "Standby" continue to get "Standby Pay" when they are actually called back to work and are being paid overtime pay for the same hours. Current city wide Standby Pay is $520,000 a year ($240,000 in SPOA). Cannot tell from City records how much Standby is being paid on current hours where overtime is also being paid. Assuming 10% reduction in Standby Pay.

Total savings in FY12-13:	$52,837 All	$24,481 GF

- All units. Standby Pay. Change Standby Pay rate to fixed hourly rate rather than number of hours at individual employee hourly rate plus Add Pays per standby shift. Change rate to $3 per hour for all units. Cost citywide is $520,000. POA gets one hour of pay for the 14 hours off duty during workday and 3.3 hrs. (Or five hours on holidays) for 24 shifts. SCEA gets four hours for 24 hrs. Prorated OE3 units get two hours for every eight hours and six hours for a 24 hour shift. Stockton rate for Police Officer is on average $3 an hour for the standby during the workweek and $5.82 hr. for days off, $8.75 for holidays. O&M hourly rate for standby is around $6.57 an hour and Water Sup is $8.61 an hour.

SPOA regular standby.	No savings anticipated -- future cost avoidance	
POA day off/weekend standby 51% reduction	$85,000 All	$72,250 GF
OE3 55% reduction in rate savings	$130,000 All	$0 GF
Total savings in FY12-13:	$215,000 All	$72,250 GF

- SPOA. Eliminate compensation for hire backs and special assignments at OT rate. Regular rules on overtime would apply. (Savings: unable to calculate based on current records.)
- All units. Eliminate all payment of overtime that exceeds time and a half. Currently some MOU's provide for double time and a half for work performed on holidays and weekends. . (Savings: Not able to calculate with available records.)

23. SPOA and Fire. City Paid Union release time over labor market. Eliminate City paid union leave time of 400 hours POA, 500 hours Fire per year. (Savings: Not able to determine; this time is not tracked now.)

24. Non-economic changes. (Savings: not quantifiable but better management of operations would result.)

- SPOA. Remove section 15.10 survey agencies.
- SPOA. Change "rule of 1" on promotional exams to "rule of 10"
- SPOA. Clarify seniority when tied.
- SPOA. Clarify workweek language due to alternative schedules
- Fire. Change rule on promotional probationary period. Current no probation when promoted in dept. Change to add one year probation to all promotional classes.
- Fire. Clarify status of people on reemployment list who waive reemployment.

- O&M clarify jury duty practices
- All units. Revise grievance procedure to remove step 4 Board of Adjustment hearing,
- All units. In all sections of MOU, review and change to hours instead of days where appropriate (to avoid confusion with alternate schedules).
- All units. Add previously agreed to side letters not included in last MOU.
- SCEA and B&C. Change layoff rights from citywide to department wide.

25. <u>All units. Medical Plan changes</u>

- <u>Eliminate dual coverage for actives and retirees in all City-sponsored plans</u>. Currently the City allows employees and retirees married/domestic partners with each other to double cover themselves under the City's medical plans. Most plans prohibit dual coverage and limit benefits to what the person would have otherwise gotten without the double coverage. (Savings: unable to calculate at this time.) City savings would be from retiree only since it has capped its contributions for employees. Any savings to employee rates would lower employee cost.)

- <u>Add Kaiser language allowing for retirees to keep Kaiser or OE3 plans if they had them at end of employment but with language clarify city commitment for payment</u>. (Savings: none, but may save in future and will avoid any expansion of liability for retirees using these other plans.)

- <u>All units and retirees. Make Plan design changes allowed under Health Care Reform for retirees only</u>. Remove health care reform and Mental Health Parity Act changes and return to benefit in effect before City made changes in last two years. Federal law allows agencies to roll back Health Care Reform required changes for retiree only plans. Includes:
    - Limits on numbers of Acupuncture visits Unlimited vs. 12 per year
    - Payment of Acupuncture at 80% vs. 60%
    - Limits on numbers of Alcohol and Drug Treatment admission limitations. Unlimited vs. 30 days and 3 lifetime admissions
    - Limitations on Outpatient mental health or Nervous Disorder. Unlimited vs. 15-visit maximum
    - Preventative care/wellness. 100% vs. 80% paid
    - Lifetime maximum. Unlimited vs. $2.5 million; return dependent children coverage from age 26 back to previous limit

  (Savings: Estimate that this may save 10% of retiree costs for City Health ISF. Would be reflected in lower future cost increases.)

- <u>All units and Retirees only. Add Kaiser Sr. Advantage to choices for retirees</u>. Benefits equal or exceed city plan. (Savings: 10% for each retiree who changes to plan.)

26. SCEA, B& C, OE3. Retiree Medical Trust Payments. Eliminate current payments (2%) for employee hired after 2009 but before retiree medical eliminated. The city has already proposed elimination of trust payments to SPOA. SPMA gave up its benefit in 2011. The City has agreement with B&C, OE3, but not SCEA, that new hires after June 30, 2011 get no RMT payment but a few people hired between 2009 and 2011 continue to receive this. With the proposal to eliminate retiree medical, we believe that we should eliminate this as well.

B&C	$52,870 All	$9,632 GF
SCEA	$61,018 All	$39,882 GF
Trades	$30,255 All	$3,779 GF
Total savings in FY12-13:	$144,143 All	$53,294 GF

27. All units. Retiree Medical

    Retiree Proposal is incorporated by reference for current employees into labor proposal.

See Attachment 3 for labor unit MOUs incorporating detailed proposed labor proposal changes.

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Retiree Proposal

Background

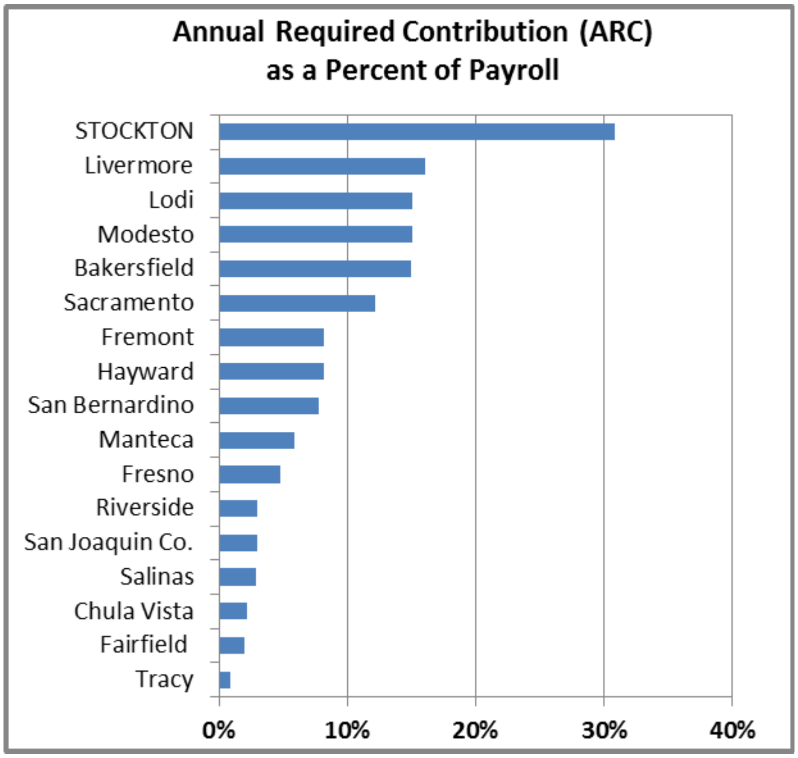
Among the largest unfunded liabilities facing the City are costs associated with providing promised pension benefits and retiree medical benefits. Stockton, like most California cities contracts with the California Public Employees Retirement System (CalPERS) for a defined benefit pension program on behalf of City employees. Also, like most cities in the State, Stockton enhanced pension programs in the 1990's and early 2000s. In 2011, Stockton proposed new lower cost retirement programs for new employees to all bargaining units, and has been negotiating to reduce pension benefits. At this point all unions have agreed to new tiers but SPOA and SCEA, but due to PERS rules the City cannot go forward implementing a new tier for any groups (except Fire) without agreement from these two groups. Adding new lower tier benefits has also become commonplace in California as local governments address structural deficit issues.

The other large and costly benefit Stockton offers to retired employees is lifetime medical coverage, equivalent to that provided current employees, for retirees and their spouses, which is fully paid by the City. Unlike the CalPERS pension benefit, this retiree benefit is not typically provided by cities in California. In fact, to the best of the City's understanding, the Stockton retiree medical benefit is the most generous retiree medical coverage plan provided by any significantly sized city in the State. In addition as will be explained below, the retiree medical coverage provided by Stockton does not cover all retirees, only the more recent retirees, and these individuals typically have larger pensions than the retiree population as a whole.

Retiree Medical Benefit Among Stockton's Comparison Agencies

Entity	Annual Required Contribution (ARC)	ARC % of Payroll	Unfunded Actuarial Accrued Liability	1/1/2012 Population	UAAL per Capita	Funded Ratio	Covered Payroll
Stockton	$31,436,257	30.81%	$416,737,585	295,707	$1,409	0.00%	$102,040,120
Livermore	$5,327,000	16.05%	$92,359,000	82,400	$1,121	3.36%	$33,196,000
Sacramento	$33,335,000	12.11%	$376,417,000	470,956	$799	0.00%	$275,252,000
Modesto	$12,170,874	15.02%	$104,399,231	203,085	$514	0.00%	$81,027,934
Hayward	$6,302,436	8.13%	$68,437,624	147,113	$465	0.75%	$77,520,736
Fremont	$6,071,000	8.20%	$67,049,000	217,700	$308	0.00%	$74,073,000
Salinas	$1,397,000	2.90%	$45,700,000	152,401	$300	0.00%	$48,200,000
Bakersfield	$9,495,763	14.91%	$101,430,667	354,480	$286	10.70%	$63,685,205
Lodi	$1,415,969	15.05%	$17,710,456	62,825	$282	0.00%	$9,409,782
Manteca	$1,543,000	5.85%	$18,320,000	69,815	$262	0.00%	$26,368,000
Riverside	$5,617,000	3.00%	$54,900,000	308,511	$178	0.00%	$187,233,333
San Joaquin County	$10,929,000	2.97%	$108,600,000	695,750	$156	0.00%	$367,700,000
Fairfield	$797,000	1.99%	$14,831,000	106,379	$139	0.00%	$40,000,000
Fresno	$11,734,997	4.76%	$84,252,383	945,711	$89	0.00%	$246,461,400
Chula Vista	$1,470,000	2.13%	$11,885,000	249,382	$48	0.00%	$69,087,000
San Bernardino	$6,084,000	7.71%	$61,371,000	211,674	$290	0.00%	$78,951,000
Tracy	$310,883	0.84%	$2,295,979	83,900	$27	0.00%	$37,100,000
Median of Agencies	$6,071,000	6.78%	$67,049,000	211,674	$286	0.00%	$74,073,000

The following chart illustrates further the degree to which Stockton's retiree medical benefits exceed its labor market.



In determining how to restructure its obligations, City management gave thought to this distinction and developed a proposal which tries to strike an equitable balance with respect to retiree obligations and keeps the City a competitive employer. Specifically the City has elected to target retiree medical costs for restructuring, but to attempt and preserve pension funding for current retirees and current employees who will retire under the CalPERS system.

Retiree medical costs are enormous and growing faster than either City revenues or other expenditures. Furthermore, every dollar that is spent on retiree benefits is a dollar that cannot be used to fund current services to the public. Because it is the City's priority to retain basic municipal services this is a cost area where substantial reductions are sought.

It is also an area in which Stockton is substantially out of alignment with industry standards relative to this type of benefit. The City contracted with a labor relations expert to collect comparable data on the retiree medical benefit offer by other municipal agencies. The results of the survey demonstrate that Stockton's retiree medical benefits are significantly higher than the surveyed agencies. The results of this survey can be found as Attachment 4.

Starting in 1980, the City provided retiree medical benefits to persons retiring directing from employment with the City. That earlier benefit for the retiree and one dependent ended when the retiree had reached age 65 or reached the maximum years the benefit would be provided (7-15 years). The City later agreed to provide an over 65-age retiree medical benefit that had no end date for current employees. The dates when this expanded benefit was instituted vary for the following groups, as follow:

- 1985 Unrepresented Mgmt. group (including Law group and B&C)
- 1990 Police Management
- 1995 Fire Management
- 1996 Fire
- 1997 SCEA, OE3
- 1998 POA

Approximately 1,100 out of Stockton's total 2,400 retirees receive retiree medical benefits. These are the most recent retirees and the vast majority (over 80%) of these retirees also retired <u>after</u> the City added retirement enhancements and retired with greater pension benefits than previous retirees. These enhancements were.

- <u>Police</u>: 3@50 with Employer-Paid Member Contribution (EPMC) and additional survivor benefits – granted in 2000
- <u>Fire</u>: 3@50 with EPMC and additional survivor benefits – granted in 2001
- <u>Miscellaneous</u>: 2@55 – granted in 1993; in 1997, the City added enhancements including additional survivor benefits, EPMC, sick leave conversions etc.; in 2001, the City added the 5% COLA provision

Of the retirees with retiree medical benefits:

- 16.5% are Fire retirees, 22.5% are Police and 61% are miscellaneous retirees.
- 8.6% had less than 10 years of service with the City (note that most of these are Misc. employees rather than Safety, and some left short periods of Stockton employment), 26.3% had 10-19 years of service, 41.1% had 20-29 years, and 24% had over 30 years of City service.
- 33% of the retirees are over 65, and 67% are under 65.
- Survivor benefits for spouse of deceased retirees were never approved by any City Council except for OE3 units. Survivor benefits were approved by a City Manager for unrepresented employees and then extended by the Human Resource department without authorization.

Currently, the retiree medical benefit for these retirees is the full premium paid by the City for the retiree and one dependent. No minimum years of service with Stockton are required to receive this benefit except for SCEA and OE3 groups who have a requirement of 15 years of City of Stockton service. There is no cap on the City's costs for the retiree/dependent premium.

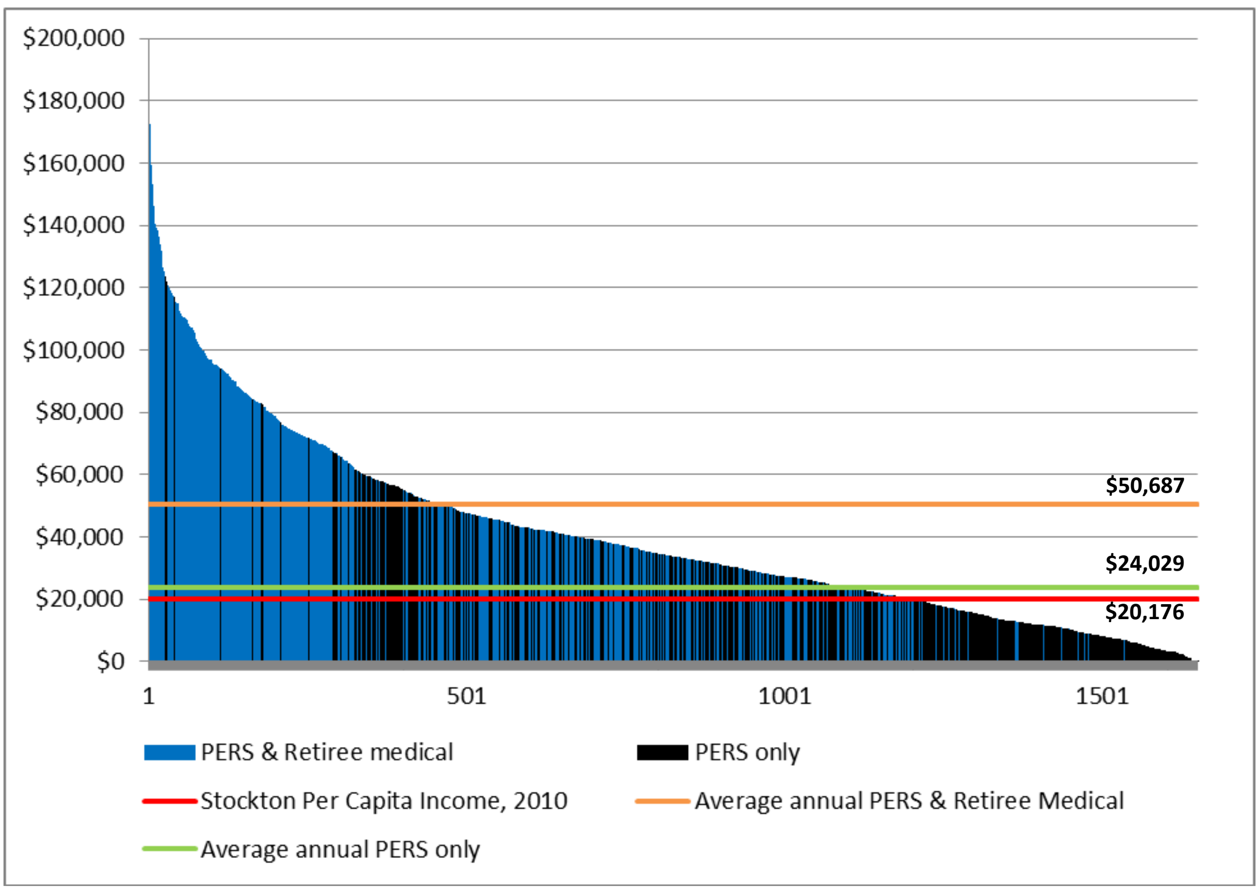
The City's current retiree medical benefits are dramatically out of step with the labor market. Many agencies provide either no benefit at all or they have some limited contribution that is made while the employee is employed. (This is done either as a percent contribution to an account or the cashing out of a portion of sick leave. Since it is a fixed dollar amount that varies with the employee, it is not a lifetime benefit. Once the money is gone, the retiree gets no other benefit.) Even agencies that give an ongoing contribution for life make a fixed dollar contribution, are more modest and usually are dependent on the number of years of service.

The City's most recent Other Post-Employment Benefits (OPEB) study calculates the City's unfunded OPEB liability at $417 million for retiree medical. The City has never prefunded any retiree medical benefit and pays the annual cost as a pay as you go basis.

The FY11-12 City expenditure for retiree medical is $15 million, of which $9 million is a General Fund cost. Segal, the City's actuary, projects that the City annual pay-as-you-go costs for retiree medical will double in 10 years.

It is also important to note that the retirees with medical coverage receive higher pensions, on average, than those without. This is because those with medical coverage retired more recently at higher salaries and with enhanced retirement benefits. The graph below shows annual pension amounts for retirees with and without retiree medical coverage.

Figure 1. Annual Pension for Retirees with and without Retiree Medical



Notes:

1. Graph is based on the most complete and current data which CalPERS was able to provide. CalPERS is currently merging 56 separate databases and will not have capability to run better reports until this project is completed
2. Data does include all known retirees with medical retirement benefits. Data also includes many older retirees, but not all, since the total number of data points is less than total reported beneficiaries. Some beneficiaries with and without retiree medical may have limited Stockton service time or be contingent beneficiaries of one type or another.

AB 506 Proposals

1. Effective July 1, 2012, eliminate all Retiree Dental benefits to current and retired department heads and some City Manager office management employees. The benefit is only provided to department heads and some management employees in the City Manager's Office when they retire until age 65. Savings is $30,000 total ($16,000 General Fund) annually.

2. Eliminate all Retiree Medical Benefits for current and future retirees.

   A. Effective July 1, 2012, reduce the City contribution towards the cost of retiree medical for current and future retirees. Reduce City 's contribution retiree medical benefits for current retirees and employees to a fixed dollar amount of:
      - $450 per month for retirees with at least 30 years of City service
      - $300 a month for retirees with at least 20 years of City service
      - $150 a month for retirees with at least 10 years of City Service
      - Current retirees and employees with less than 10 years of City service would not receive any retiree medical benefits.
      - City Contribution is to retiree only, and no survivor benefits are provided. Current survivors (approximately 50) would be treated the same as current retirees, but any new survivors would not receive a City contribution.
      - Survivors of Management employees who died while employed and who are receiving lifetime family medical from the City will be treated the same as retirees. This change would not apply to public safety employees killed in the line of duty where state law requires survivor benefits and the State of California reimburses the City for these expenses.

      Cost: In FY12-13 the cost would be $3.3 million (all funds) or General Fund $2.1 million. General Fund savings in FY12-13 would be $7.1 million.

   B. Effective July 1, 2013, all retiree medical benefits for current retirees and employees are eliminated.

      Projected City cost $0. General Fund savings in FY13-14 would increase by $2.4 million, to a total of $9.5 million. In addition the City would avoid significant cost increases that would otherwise occur in future years.

3. Since the City operates a self-funded medical plan and has risk and exposure to claims costs, retiree enrollment at their own expense in City sponsored medical plans will not be allowed after July 1, 2013.

See Attachment 3 for labor unit MOUs incorporating proposed retiree changes.

Debt Proposal

Background

Only certain types of debt can be issued in California without two-thirds voter approval. Enterprise revenue obligations can be issued as long they are payable from revenues of a special fund, like Stockton's water and sewer enterprise funds. Revenues for these funds are derived from rates and charges sufficient to pay debt service and provide debt service coverage, which are subject to limitations as to use and imposition under Proposition 218 (Article XIIID, Section 6 of the California Constitution). Such revenue bonds only can be issued for enterprise purposes and not for General Fund related purposes. Tax allocation bonds could be issued by redevelopment agencies (prior to the passage of ABx1 26) as long as sufficient tax increment was available to pay debt service and provide debt service coverage. Tax allocation bonds could only be issued to build projects within the specified redevelopment project areas. Assessment District and Community Facilities District (Mello-Roos) financings for infrastructure in new developments are very common tools used by the development community to access much cheaper tax-exempt financing. These districts require a property owner vote but are usually formed with one or a few developers voting, making the election a rather straightforward process, and are used to finance specific projects within specific developments. These are commonly called "land-secured" financings.

Unfortunately, short of these tools or two-thirds voter approval for General Obligation bonds, cities in California have few tools to finance large General Fund supported infrastructure projects. Article XVI, Section 18 of the California Constitution (the "Debt Limit") generally prohibits cities from incurring debt beyond the fiscal year without 2/3 voter approval. The Lease Revenue Bond ("LRBs") and Certificates of Participation ("COPs") structures were developed many years ago to provide additional financing tools to local governments. These lease financing mechanisms are commonly used by California cities and have been in use for many years. Certain types of long term leases do not run afoul of the Debt Limit, under the authority of a series of Supreme Court cases (these types of leases are known as "Offner-Dean" leases -- so named after the two seminal Supreme Court decisions). Stockton utilized the Offner-Dean lease structure to incur most of the General Fund debt it has outstanding (the exception being the Pension Obligation Bonds, which rely on a different Debt Limit exception, and the DBAW loan, which does not have a Debt Limit exception). Unfortunately, these types of obligations do not carry with them the ability to raise revenues through taxation or otherwise, Many cities, including Stockton, incurred lease obligations payable from of the unrestricted funds of the city, but intended to use other revenue streams to actually make the payments (such as developer fees, redevelopment tax increment, or operating revenues of a facility). For many cities, including Stockton, the underlying revenue streams intended to be used to repay these obligations fell precipitously during the recession, and that has placed increased pressure on their ability to repay.

City Debt Obligations

From 2001 to 2009, the City undertook an aggressive development program and borrowed heavily to meet its goals. It also gambled on the stock market and issued $127 million in

Pension Obligation Bonds to finance its PERS unfunded liability that was largely created by enhanced retirement benefits in the 1990's and early 2000's. Unfortunately, given the economic realities of today, the level of debt is unsupportable both now and into the foreseeable future. Debt is a cost component which has not been addressed in the City's budget process until now and, if not dealt with, will increase substantially in the next few years. The fact of the matter is that there were very real risks associated with all the debt the City took on. These risks were outlined in the Official Statements associated with each debt issue. Unfortunately, the risks have now become reality, and the City is no longer able to pay the debt as originally structured.

It is important to note that most of the City's General Fund debt commitments are structured as lease transactions secured by a leasehold interest in some facility or asset. Some of these assets are essential to City operations, such as the Main Police facility, some are public recreational facilities such as Oak Park, and some are of more a commercial nature, such as the 400 East Main Building and parking structures. Stockton issued significant levels of LRBs and COPs during the boom period to finance many large infrastructure projects including the Arena also secured by Waterfront tax increment (2004 Arena Bonds), the purchase of the 400 E. Main building (2007 VRDOs) and to construct downtown parking (2004 Parking). It used the LRBs and COPs structure to provide housing funds before the redevelopment project areas had sufficient tax increment to sell on that credit alone (2003 Housing COPs).

In addition, the City issued Pension Obligation Bonds (POBs) in 2007 to reduce the cost of the City's unfunded liabilities largely created by the enhanced PERS retirement benefits. Unfortunately, nearly one-third of the asset value was lost as stock markets dropped during the financial crisis. This obligation is an unsecured obligation of the City, with no other collateral or pledged revenue stream committed to the payment of debt service. It is exempt from the requirements of the Debt Limit because it refinanced an "obligation imposed by law" – the obligation to fund unfunded pension liability – and was validated in court. The City also entered into a loan agreement with the California Department of Boating and Waterways ("DBAW") to finance marina facilities and related improvements. This obligation is not a lease structure, but rather a loan with the marina revenues pledged for repayment and the marina facilities securing the loan. However, this obligation does not enjoy a Debt Limit exemption, was not voter approved, and is therefore not an enforceable obligation of the General Fund absent a voluntary appropriation by the City Council to pay debt service. The gross revenues of the Marina are validly pledged for repayment, but the marina currently operates at a loss (before debt service) and if the State were to take the gross revenues to pay debt service, the Marina would need to be closed because there would not be sufficient funds to operate it, and that would in turn eliminate all revenues. The City's General Fund currently subsidizes the operation of the Marina by approximately $150,000 per year before debt service.

The City also engaged in complex interfund borrowing in funds accumulating money for capital improvements. These poorly documented loans and transfers created cash shortfalls in funds now required to fund projects. Bonds issued in 2009 (2009 PFFs) were used to unwind several of these internal loans with the bond proceeds used to reestablish dollars in those funds that had lent money to other funds. Now such revenues are needed to fund projects of their own. Unfortunately, since annual housing permits have dropped -- from nearly 3,000 per year in the years before the recession to less than 150 per year today -- this has made it impossible for the funds to make the full debt service payments requiring a General Fund subsidy.

Lastly, some, not all, of the obligations were structured with increasing debt service each fiscal year assuming growth and development would continue. As debt service grows, it places increasing pressure on the General Fund to make up any shortfalls. Annual debt service will grow from about $17.9 million in FY12-13 to a little over $24.4 million by FY23-24 unless corrective actions are taken.

Factors for Debt Proposal

This proposal is based on two basic factors:

- <u>Secured vs. Unsecured</u> – Is the obligation secured by any asset or other pledge? For any obligation that is unsecured (i.e. pension obligation bonds) the General Fund will provide no payment support, and
- <u>Essentiality of Assets</u> – If the obligation is secured, is the collateral essential? For the lease transactions where the assets are essential, protect the asset by first pledging any outside repayment source like redevelopment tax increment, development fees, or parking funds, but limit or eliminate any General Fund subsidy.

The debt proposal looked at each obligation as a stand-alone instrument analyzing the secured versus unsecured status as well as the essentiality of the leased assets, if any. This resulted in three obligations remaining and being restructured, with each obligation treated equally on a net present value basis. The methodology for this proposed restructuring is as follows:

- Five years of no payments from the General Fund for debt service.
- Internal non-General Fund funding along with the reserve fund or reserve fund surety pays debt service until exhausted.
- The remainder of debt service, not otherwise paid, along with dollars drawn against the reserve fund surety policy, is taken as the impaired amount.
- The remaining bonds outstanding are combined with the impaired amount, and a new principal amortization was run with interest only for the first five years from FY17-18 to FY21-22 and full amortization of level fiscal year debt service from FY22-23 to FY51-52 (30-years).
- The total program life is 40-years (five years no debt service, five years interest only and 30-years full amortization.
- The assumed interest rate on the restructured obligations is approximately half of the current State of California GO bond rate or 2.5% and the assumed discount rate is 5.0%.

The results of this analysis decreased total debt service paid by the City by $355.2 million over the life of the proposal. Since the payments on the four restructured obligations were stretched out to FY51-52, the net present value savings to the City is approximately $219.3 million (assuming a discount rate of 5.0%). For each restructured obligation, the creditor receives its full principal and interest payments including repayment of impaired amounts but takes place over an extended period of time resulting in a 45.5% discount on a net present value basis. However, under this proposal two creditors (2007 POBs and DBAW) are deeply or fully impaired

Listing of Obligations and Summary of Proposals

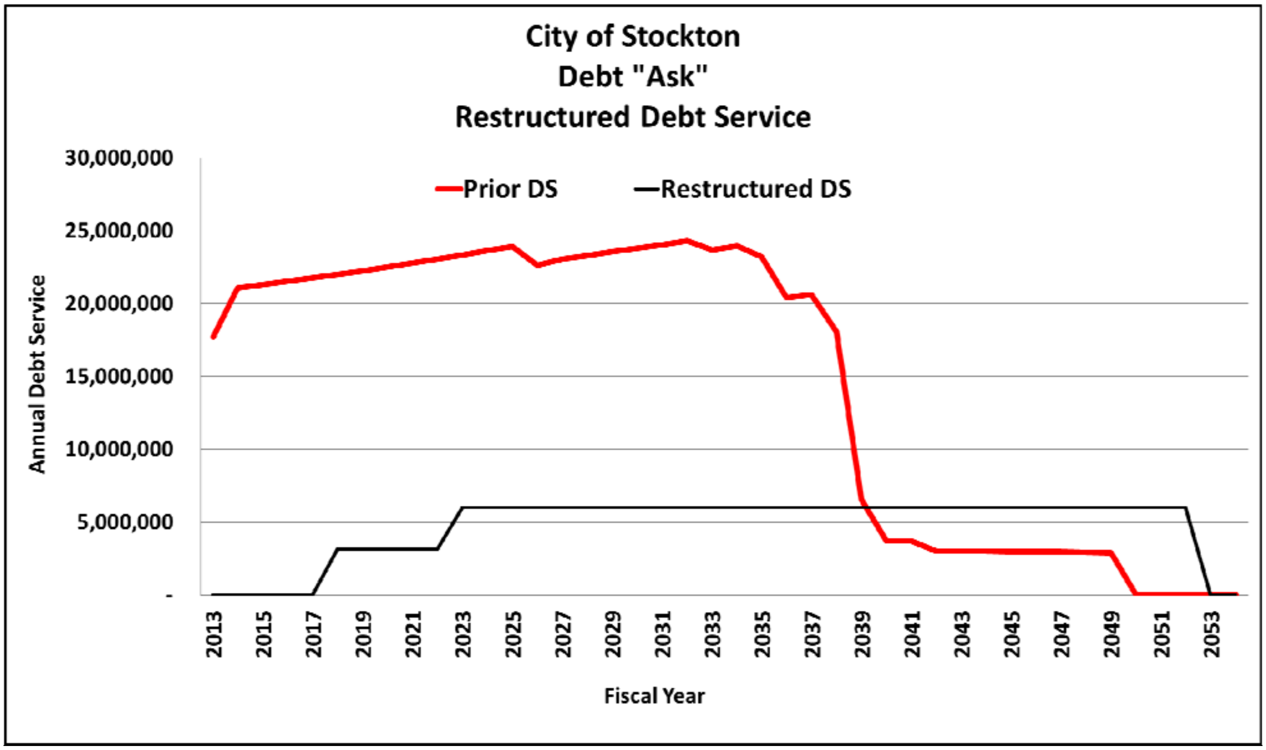
- 2003 Housing COPs (Secured by: library, main police facility, and fire stations 1, 5 and 14 - Credit Enhancement: Ambac):
  - Restructured with continued General Fund backstop. The former housing tax increment would still be used as the internal source of repayment until the project areas mature, but current projections show little if any housing tax increment available for this obligation in the near to medium term.
- 2006 ESB (Secured by: Stuart Eberhart Building - Credit Enhancement: NPFG):
  - Restructured, with no General Fund payments, pledge or backstop. Revenues that would be pledged to debt repayment would be parking revenues (85%) with a small portion (15%) paid by public facility fees (PFFs) for police.
- 2007 VRDOs (Secured by: 400 E. Main - Credit Enhancement: Assured Guaranty):
  - Restructured and continued General Fund backstop. The building does not generate net operating revenue before debt service at current leasing levels. Proposal includes a pledge of all building net revenues up to the amount of the originally scheduled debt service, and the General Fund would backstop up to the amount of the restructured debt service.
- 2009 PFFs (Secured by: Oak Park, Van Buskirk Golf Course and Swenson Golf Course - Credit Enhancement: None):
  - Restructured, with no General Fund payments, pledge or backstop. This obligation would receive only the support of PFF funds in Fire, Police, Parks and Streets (the four funds that utilized the original bond proceeds and are tasked with repayment). The City would pledge only the annual PFF revenue collected within each respective fund to the repayment of debt service.
- The 2004 Events Center (Secured by: Stockton Events Center and Arena - Credit Enhancement: NPFG):
  - Remove General Fund backstop. However, no restructuring of the payments on this obligation is anticipated because assuming that the current pledge of former redevelopment tax increment from the Waterfront Project Area will cover stated debt service. Note however, that there is risk associated with this revenue stream.
- 2004 Parking Bonds (Secured by: Arena Parking Garage, Ed Coy Parking Garage and Market Street Parking Garage - Credit Enhancement: NPFG):

- The City intends to pay nothing from the General Fund toward this obligation. The city does not intend to reestablish its possessory interest in the leased assets, and will remain in default on any obligation to make up shortfalls from operating revenue. The City of Stockton no longer has possessory interest in the leased premises pursuant to two decisions filed on April 19th by the Superior Court of the State of California County of San Joaquin granting Wells Fargo Bank, National Association "Judgment of Possession After Unlawful Detainer" and also appointing a receiver under an "Order Appointing Receiver." The City is working diligently with the receiver to structure a handover and operating program for the leased parking garages.

- 2007 POBs (Secured by: Unsecured - Credit Enhancement: Assured Guaranty):
  - Debt service on this obligation is an unsecured obligation payable from the General Fund, but is legally allocable to several funds within the City, including some solvent restricted funds such as the water and wastewater enterprise funds. Since there is no collateral securing this obligation the City does not intend to pay any debt service from the General Fund moving forward, but will continue to pay the portion of debt service legally allocable to restricted funds that are solvent, such as the water fund.

- Department of Boating and Waterways (DBAW) marina facilities:
  - The City does not believe there is a legally enforceable obligation to pay debt service on this obligation from its General Fund, due to the Debt Limit. The City is willing to continue the pledge of gross revenues of the marina, but since the marina currently operates at a net loss, any attempt to divert marina revenues from operating costs to debt service would require closure of the marina, thus eliminating all revenues. If the State does not want to take over the marina and/or sweep gross revenues for debt service, the City will continue the modest subsidy (about $150,000 per year) to keep it open, but will not pay any debt service.

Following is a graph showing the results of this proposal on gross debt service:



The following chart on the shows the debt obligations that are proposed for restructuring. See Attachment 6 for detailed information and before and after debt service schedules for each debt obligation.

Summary of Impact by Bond Issue

	2003 Housing COPs	2004 Events Center	2004 Parking	2006 LRBs
Principal Outstanding:	$12,625,000	$45,135,000	$31,640,000	$12,085,000
Notes:	Restructured	Debt "As-Is"	Impaired	Restructured
Assets Pledged:	Maya Angelou Library Main Police Facility Fire Stations 1, 5, 14	Stockton Events Center and Arena	Arena Parking Garage Ed Coy Parking Garage Market Street Garage	Essential Services Bldg SEB Parking Garage
Funding Source(s):	Backed by GF	Paid by Former RDA	N/A	Parking / PFFs Only
Credit Enhancement:	AMBAC	NPFG	NPFG	NPFG
Reserve Fund Offsets:	Net of Cash RF		Net of Cash RF	Net of Surety
Other Offsets:				
Other Structuring Notes:	No DS First 5-Yrs			No DS First 5-Yrs

	2007 POBs	2007 VRDOs	2009 LRBs	DBAW
Principal Outstanding	$124,280,000	$40,355,000	$35,080,000	$10,837,363
Notes:	Partially Impaired	Restructured	Debt "As-Is"	Impaired
Assets Pledged:	Unsecured Obligation	400 E. Main Building	Oak Park Van Buskirk Golf Course Swenson Golf Course	Unsecured Obligation
Funding Source(s):	Across City Departments	GF / Building Net Revs	PFFs Only	None
Credit Enhancement:	Assured Guaranty	Assured Guaranty	None	None
Reserve Fund Offsets:	N/A	Net of Surety	Net of Cash RF	N/A
Other Offsets:	Net of Non-GF $s		Net of PFF Cash	
Other Structuring Notes:		No DS First 5-Yrs		

COPS=Certificates of Participation
DBAW=Dept of Boating & Waterways
DS=Debt Service
LRBs=Lease Revenue Bonds
POBs=Pension Obligation Bonds
RF=Reserve Fund
VRDOs=Variable Rate Demand Obligations

Other Contracts & Claims Proposal

Five contracts or claimants are not included above, and the total proposal for these is $2.0 million per year. Each is discusses further hereafter. The principles involved are that the City should reduce non-essential costs and subsidies related to entertainment facilities as well as expenditures related to legal settlements that limit funds available for city service. The table below shows the contracts and settlements that are proposed for restructuring through the AB 506 process.

Obligation	Obligated Amount / Potential Liability	Annual Commitment	Proposal
Legal: Jarvis / MUD Settlement (1)	31,556,902	1,127,032	Give up entire repayment obligation
Legal: Price Settlement (2)	1,400,000		$1.4M and agreement is extinguished
Legal: Marina Towers Case	1,875,000	312,500	No payments for 5 years then reduced by half thereafter
Ice Hockey Sports Team League and Baseball Port Team Lease (3)	15,600,000	1,170,051	$600,000 annual; total of $7.8M new obligation (reduce City subsidy by 50%)
Total	33,797,000	2,609,583	

(1) On October, 2006 a lawsuit (*Howard Jarvis Taxpayers Assoc., et al. v. City of Stockton)* was filed contending that transfers of fees levied on water, wastewater and storm drain utilities violated Proposition 218 on the grounds that the transfers caused utility fees to be used for purposes other than providing the utility services for which the fees were charged. A settlement agreement reached in March, 2009 required the City's General Fund and Capital Improvement Fund to repay over a thirty year period $20,268,225 in principal plus $13,542,739 in accrued interest, for a total estimate of $33,810,964. Annual payments of $1,127,032 are funded by a transfer from the General Fund, and $31,556,902 remains to be paid.

(2 Could be over $5 million in cost; requires increase in affordable housing, and with loss of RDA, obligation now rests with City.

(3) City may retain an expert to assist it with renegotiation of the sports-related leases.

Jarvis Case

The Jarvis case settlement requires the City to pay from the General Fund annually the amount of $685,259.81 to the City's Wastewater Fund, and $441,772.33 to the Water Fund, until FY39-40, for a total remaining obligation of $31,566,899.92 as of 6/30/12. This settlement addressed a longstanding City practice of transferring certain utility revenue to the General Fund on the basis of a fixed percentage of gross utility revenue. This practice was replaced on a going forward basis with a legally sufficient process for reimbursement of General Fund expenses, and the remaining payments owed reflect a "claw back" of utility revenue wrongly paid into the General Fund in prior years. The proposal is a complete forgiveness of all future payments. None of the remaining payments go to the Jarvis plaintiffs, and the objectives of their suit will still be achieved through the City's agreement to reform its financial practices going forward.

The following schedule shows the remaining payments due from the General Fund to the Water and Wastewater Funds (there are no payments to the Jarvis plaintiffs), and the proposed payments, which would stop effective with FY12-13.

Jarvis Settlement to Wastewater and Water Fund

Fiscal Year	Balance Due July 1	Interest Rate	Current Interest	Current Principal	Current Payment	Proposed Payment	Variance
2011	20,268,224.51	4.00%	-	1,127,032.14	1,127,032.14	1,127,032.14	-
2012	19,141,192.37	4.00%	765,647.70	361,384.44	1,127,032.14	1,127,032.14	-
2013	18,779,807.93	4.00%	751,192.32	375,839.82	1,127,032.14	-	(1,127,032.14)
2014	18,403,968.11	4.00%	736,158.73	390,873.41	1,127,032.14	-	(1,127,032.14)
2015	18,013,094.70	4.00%	720,523.79	406,508.35	1,127,032.14	-	(1,127,032.14)
2016	17,606,586.35	4.00%	704,263.46	422,768.68	1,127,032.14	-	(1,127,032.14)
2017	17,183,817.67	4.00%	687,352.71	439,679.43	1,127,032.14	-	(1,127,032.14)
2018	16,744,138.24	4.00%	669,765.53	457,266.61	1,127,032.14	-	(1,127,032.14)
2019	16,286,871.63	4.00%	651,474.87	475,557.27	1,127,032.14	-	(1,127,032.14)
2020	15,811,314.36	4.00%	632,452.58	494,579.56	1,127,032.14	-	(1,127,032.14)
2021	15,316,734.80	4.00%	612,669.39	514,362.75	1,127,032.14	-	(1,127,032.14)
2022	14,802,372.05	4.00%	592,094.88	534,937.26	1,127,032.14	-	(1,127,032.14)
2023	14,267,434.79	4.00%	570,697.39	556,334.75	1,127,032.14	-	(1,127,032.14)
2024	13,711,100.04	4.00%	548,444.00	578,588.14	1,127,032.14	-	(1,127,032.14)
2025	13,132,511.90	4.00%	525,300.47	601,731.67	1,127,032.14	-	(1,127,032.14)
2026	12,530,780.23	4.00%	501,231.21	625,800.93	1,127,032.14	-	(1,127,032.14)
2027	11,904,979.30	4.00%	476,199.17	650,832.97	1,127,032.14	-	(1,127,032.14)
2028	11,254,146.33	4.00%	450,165.85	676,866.29	1,127,032.14	-	(1,127,032.14)
2029	10,577,280.04	4.00%	423,091.20	703,940.94	1,127,032.14	-	(1,127,032.14)
2030	9,873,339.10	4.00%	394,933.56	732,098.58	1,127,032.14	-	(1,127,032.14)
2031	9,141,240.52	4.00%	365,649.62	761,382.52	1,127,032.14	-	(1,127,032.14)
2032	8,379,858.00	4.00%	335,194.32	791,837.82	1,127,032.14	-	(1,127,032.14)
2033	7,588,020.18	4.00%	303,520.81	823,511.33	1,127,032.14	-	(1,127,032.14)
2034	6,764,508.85	4.00%	270,580.35	856,451.79	1,127,032.14	-	(1,127,032.14)
2035	5,908,057.06	4.00%	236,322.28	890,709.86	1,127,032.14	-	(1,127,032.14)
2036	5,017,347.20	4.00%	200,693.89	926,338.25	1,127,032.14	-	(1,127,032.14)
2037	4,091,008.95	4.00%	163,640.35	963,391.79	1,127,032.14	-	(1,127,032.14)
2038	3,127,617.16	4.00%	125,104.69	1,001,927.45	1,127,032.14	-	(1,127,032.14)
2039	2,125,689.71	4.00%	85,027.59	1,042,004.55	1,127,032.14	-	(1,127,032.14)
2040	1,083,685.16	4.00%	43,346.98	1,083,685.16	1,127,032.14	-	(1,127,032.14)
			13,542,739.69	20,268,224.51	33,810,964.20	2,254,064.28	(31,556,899.92)

Water share equals	39.198%
Wastewater share equals	60.802%

Price Case

The Price case arose out of the City's activities related to the condemnation and vacating of certain single room occupancy hotels in the downtown area. The settlement agreement has two distinct obligations. The first relates to the payment of certain relocation claims, and includes the obligation to fund $1.4 million. The City has paid a number of claims, and it is the City's position that the first obligation has therefore been reduced to approximately $900,000. The second obligation goes to the facilitation or production of low income housing units. The City has largely met this obligation through the City and Agency housing-related loan programs. However, there is some increment (the exact remaining obligation is the subject of some disagreement between the parties) of this obligation that remains. The proposal includes complete forgiveness of the obligation to set aside funds for relocation claims (the likelihood of further valid claims is very low) and/or to use the set aside funds for other housing-related purposes. Further, the remaining obligation related to the production of housing units (having been largely met) would be forgiven as well. The resulting proposal is therefore the complete forgiveness and cancellation of the Price settlement agreement.

Marina Towers Case

The City currently owes $1,875,000 payable in six annual installments of $312,500 through FY17-18. The Marina Towers matter was an eminent domain case relating to the City's purchase of the property from the defendants. The City's position is that this eminent domain matter has been compromised and now constitutes an unsecured agreement that may be addressed in the same manner as other general unsecured claims. The proposal includes a debt holiday for five years, a reduction in principal and forgiveness of all interest earned. The reduction in principal should correspond to the reduction being requested of other participants, with future payment terms structured to fit within the City's means going forward.

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The following schedule shows the remaining payments due to the Marina Towers plaintiffs.

City of Stockton
Marina Towers
Legal Settlement
Gross Debt Service Schedule (Current Obligation)

Date	Beginning Principal	Principal	Rate	Interest	Annual Debt Service	Fiscal Year	Ending Principal
6/1/2013	1,875,000.00	312,500.00	-	-	312,500.00	2013	1,562,500.00
6/1/2014	1,562,500.00	312,500.00	-	-	312,500.00	2014	1,250,000.00
6/1/2015	1,250,000.00	312,500.00	-	-	312,500.00	2015	937,500.00
6/1/2016	937,500.00	312,500.00	-	-	312,500.00	2016	625,000.00
6/1/2017	625,000.00	312,500.00	-	-	312,500.00	2017	312,500.00
6/1/2018	312,500.00	312,500.00	-	-	312,500.00	2018	-
Totals		**1,875,000.00**		**-**	**1,875,000.00**		

The following schedule shows the amounts that would not be paid in FY12-13 through FY16-17.

City of Stockton
Marina Towers
Legal Settlement
Estimated Cash Flow

Total Projected Unpaid Principal and Interest (Includes Reserve Fund Draws):	**1,562,500.00**
Amount Unpaid 3/1/2012 (per City Council Action of 2/28/12)	**-**
Total Unpaid Amount	**1,562,500.00**
Remaining Unpaid Principal	**312,500.00**
Restructured Issue Size	**1,875,000.00**

Reserve Fund **-**

Fiscal Year	Fiscal Year Debt Service	Less Projected Available Revenues	Remaining Fiscal Year Debt Service	Less: Draws Against Reserve Fund Corpus	Remaining Unpaid General Fund Debt Service
2013	312,500.00	-	312,500.00	-	312,500.00
2014	312,500.00	-	312,500.00	-	312,500.00
2015	312,500.00	-	312,500.00	-	312,500.00
2016	312,500.00	-	312,500.00	-	312,500.00
2017	312,500.00	-	312,500.00	-	312,500.00
Totals	**1,562,500.00**	**-**	**1,562,500.00**	**-**	**1,562,500.00**

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The following schedule shows the restructured payment schedule for Marina Towers from FY12-13 through FY32-33, including no payments from FY12-13 through FY16-17.

City of Stockton
Marina Towers
Legal Settlement
Gross Debt Service Schedule (Restructured Obligation)

Date	Beginning Principal	Principal	Rate	Interest	Fiscal Debt Service	Fiscal Year	Beginning Principal
7/1/2012	1,875,000						1,875,000
6/1/2013	1,875,000					2013	1,875,000
6/1/2014	1,875,000					2014	1,875,000
6/1/2015	1,875,000					2015	1,875,000
6/1/2016	1,875,000					2016	1,875,000
6/1/2017	1,875,000					2017	1,875,000
6/1/2018	1,875,000	115,000	-	-	115,000.00	2018	1,760,000
6/1/2019	1,760,000	115,000	-	-	115,000.00	2019	1,645,000
6/1/2020	1,645,000	115,000	-	-	115,000.00	2020	1,530,000
6/1/2021	1,530,000	115,000	-	-	115,000.00	2021	1,415,000
6/1/2022	1,415,000	115,000	-	-	115,000.00	2022	1,300,000
6/1/2023	1,300,000	115,000	-	-	115,000.00	2023	1,185,000
6/1/2024	1,185,000	115,000	-	-	115,000.00	2024	1,070,000
6/1/2025	1,070,000	115,000	-	-	115,000.00	2025	955,000
6/1/2026	955,000	115,000	-	-	115,000.00	2026	840,000
6/1/2027	840,000	120,000	-	-	120,000.00	2027	720,000
6/1/2028	720,000	120,000	-	-	120,000.00	2028	600,000
6/1/2029	600,000	120,000	-	-	120,000.00	2029	480,000
6/1/2030	480,000	120,000	-	-	120,000.00	2030	360,000
6/1/2031	360,000	120,000	-	-	120,000.00	2031	240,000
6/1/2032	240,000	120,000	-	-	120,000.00	2032	120,000
6/1/2033	120,000	120,000	-	-	120,000.00	2033	-
Totals		**1,875,000**		**-**	**1,875,000.00**		

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The following schedule compares the current and restructured payment schedule for Marina Towers.

City of Stockton
Marina Towers
Legal Settlement
Calculation of Payment Differential and Fiscal Impact

Date	Restructured Obligation	Current Obligation	Fiscal Year Difference	Fiscal Year
7/1/2012				
6/1/2013		312,500.00	(312,500.00)	2013
6/1/2014		312,500.00	(312,500.00)	2014
6/1/2015		312,500.00	(312,500.00)	2015
6/1/2016		312,500.00	(312,500.00)	2016
6/1/2017	-	312,500.00	(312,500.00)	2017
6/1/2018	115,000.00	312,500.00	(197,500.00)	2018
6/1/2019	115,000.00	-	115,000.00	2019
6/1/2020	115,000.00	-	115,000.00	2020
6/1/2021	115,000.00	-	115,000.00	2021
6/1/2022	115,000.00	-	115,000.00	2022
6/1/2023	115,000.00	-	115,000.00	2023
6/1/2024	115,000.00	-	115,000.00	2024
6/1/2025	115,000.00	-	115,000.00	2025
6/1/2026	115,000.00	-	115,000.00	2026
6/1/2027	120,000.00	-	120,000.00	2027
6/1/2028	120,000.00	-	120,000.00	2028
6/1/2029	120,000.00	-	120,000.00	2029
6/1/2030	120,000.00	-	120,000.00	2030
6/1/2031	120,000.00	-	120,000.00	2031
6/1/2032	120,000.00	-	120,000.00	2032
6/1/2033	120,000.00	-	120,000.00	2033
	1,875,000.00	**1,875,000.00**	**-**	

Sports Facilities & Leases - Overview

In March 2004, the City entered into four sport team leases and a facilities management agreement for the Stockton Events Center. The Stockton Ports, owned by 7th Inning Stretch had an exclusive lease at the Stockton Ballpark. The Stockton Thunder and Stockton Lighting were both owned by IFG-Stockton Franchise. The California Cougars were owned by American ProSports, which had common interests with Regent, an Events Center construction contractor. The City entered into a Facilities Management Agreement (FMA) with IFG Stockton for the Stockton Events Center Facilities. In the FMA, IFG Stockton was required to acquire the ice hockey and indoor football teams creating a common ownership for both the teams and management group. The City believes that this common ownership created a conflict of interest which negatively impacted the revenue terms. In 2007, the City Auditor reviewed contract terms and released an audit report stating "…though the arena has exceeded expectations in many areas, the City has not shared equally in the successes due to the unfavorable terms of the Team Lease Agreements. The terms of the Team Leases have a significant detrimental impact on the City…"

Arena - Stockton Thunder Lease

The City employed Economics Research Associates (ERA) to complete a feasibility study regarding the viability of the Stockton Arena in the current market. The base study estimated an annual deficit between $89,000 and $186,000 within a matrix which include sensitivities to attendance and events. That analysis was based on industry standard revenue sharing agreements but did not review the actual revenue sharing contract terms for the sport teams. The existing revenue-sharing agreements require higher subsidy from the City than originally expected. In FY07-08, the City absorbed a $2.1 million[2] operating deficit for Arena operations. The City's proposal includes a number of major items to restructure the Thunder Lease, as summarized in the following table. For FY12-13, The City anticipates a $1,051,902 subsidy for the Arena. If all of these changes are successfully implemented, the City could reduce the subsidy by $586,379, lowering the General Fund subsidy for FY12-13 to $465,523.

Recommended Changes	**Fiscal Impact**
Sponsorship/Advertising/Naming Rights/Pouring Rights	200,000
Concessions/Catering	165,000
Premium Seating	70,000
Rent Fees and Related Game Day Credits	41,000
Merchandise/Novelties	2,619
Parking Operations	32,760
Booking and Scheduling	75,000
Total Savings (FY12-13)	586,379

[2] A new FMA with industry standard language with the new operator SMG anticipates a reduction of operating subsidy to $830,000 FY13-14.

Ballpark - Stockton Ports Lease

The Ballpark lease with the Stockton Ports/7th Inning Stretch is another Events Center sport team lease structured in favor of the team. In FY12-13, the anticipated subsidy of the Ballpark is $426,000 because the City pays the majority of the facility and game day expenditures for all ports games and 20 non- game events and only shares in two revenue sources: a small component of (1) suite revenue and (2) facility fees.

The proposal includes several major recommendations to improve the Stockton Ports Lease from the operating account and one overhead cost. If the City is able to implement these changes, the City could equitably rebalance the revenue and expenditure elements and eliminate the subsidy. The following is a brief summary of the cost savings of the recommendations:

Recommended Changes	**Fiscal Impact**
20 "Ports Events" Facility Charge	100,000
Facility Fee Increase	76,972
City Charges per game	105,000
Possessory Interest	79,000
Premium Seating/Suite Splits	34,000
Parking	168,700
General Contract Terms	20,000
Total Savings (FY12-13)	583,672

Summary of AB 506 Proposals

How the above proposals are implemented and their timing will affect the annual savings the General Fund can expect to receive. Certain proposals will grow in value over time, such as labor benefits that increase with salary levels. The value of retiree benefits increase significantly, due to the projected increases in health costs and the increase in benefit-eligible retirees. Debt savings cannot be greater than paying nothing, so while most of the City's debt service is currently structured to increase annually, any proposal that results in resumption of restructured debt will lead to a reduced level of savings in the future.

The following table summarizes the proposals that relate to imposition of terms under the financial emergency resolution, or future increases under those current contracts that are not included in the baseline budget. Employees are asked to waive claims to these amounts, which total $21.7 million for the General Fund through the term of the current contracts. These savings are already included in the baseline budget, and thus do not improve the City's financial condition. However, failure to achieve these savings would significantly worsen the City's financial condition.

Summary of Proposal Savings Already in Baseline Budget

Proposals (rounded to nearest thousand dollars)	All Funds	General Fund
Labor Proposal – waive claim to amounts previously imposed in 2010 & 2011 through balance of contract period	$32,742	$19,596
Labor Proposal – waive claims to 2012-2014 increases through balance of contract period	4,567	2,129
Total – Savings Already in Baseline Budget	37,309	21,725

The following table summarizes the total proposals by category. Using FY12-13 dollars, savings of $32.1 million would accrue to all funds, 77.9% of which – $25.0 million – benefits the General Fund.

Summary of Annualized Savings in FY12-13

Proposals (rounded to nearest thousand dollars)	All Funds	General Fund
Labor Proposal – New Savings Proposals (1)	$6,275	$4,812
Retiree Proposal (1)	13,194	7,053
Debt Proposal (2)	10,549	10,549
Other Contracts/Claimants Proposal	2,610	2,610
Totals – Savings from Baseline Budget	32,628	25,024

(1) phase-out of benefits adds another $2.5 million to total savings in FY13-14, plus $800,000 growth in value of savings

(2) net savings in debt service after applying revenues from other funds

While the focus is on the General Fund, certain changes of necessity affect current obligations paid by a wide variety of City funds, and so certain savings will accrue to those other funds as well. The debt proposal was focused on reducing General Fund obligations, and the bond restructurings may result in a continuation of other funds making their share of debt service payments on bond payments currently backed by the General Fund, so no additional savings is assumed for those funds.

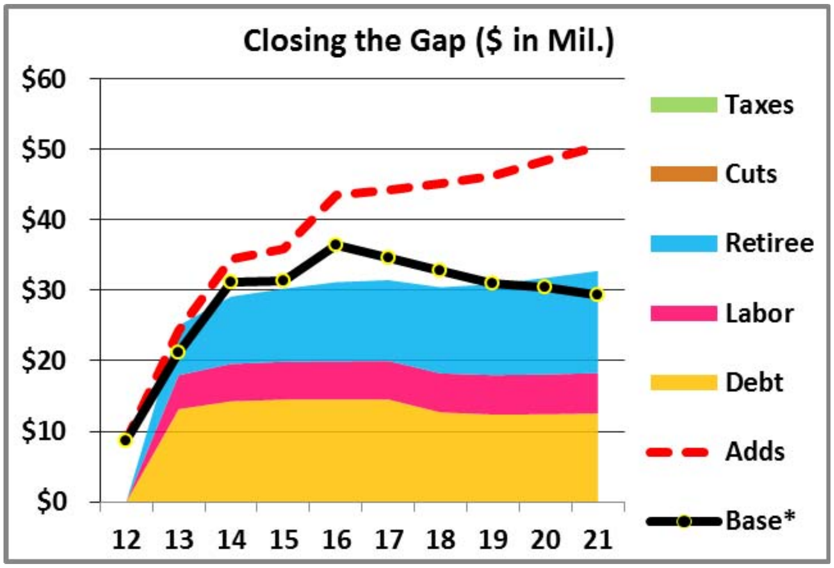
Fiscal Impact of AB 506 Proposals

The total annual savings from the proposed AB 506 proposals is $25.0 million in FY12-13, and averages $30.3 million annually through FY20-21. Unfortunately, while the AB 506 proposal savings is absolutely necessary, it alone is not sufficient to close the City's ongoing budget gap. The following table shows the impact of the City's proposed AB 506 savings on the General Fund budget shortfall. After AB 506 savings there is a $700,000 net shortfall in FY12-13, but the annual shortfall grows rapidly thereafter, to $5.4 million in FY13-14, to $12.3 million in FY15-16, and rising to $17.6 million by FY20-21.

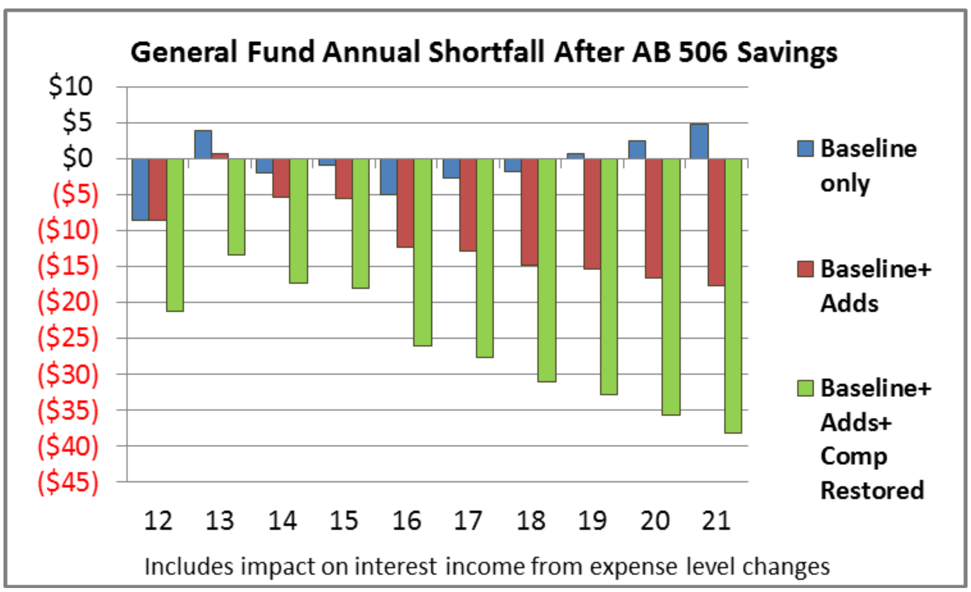
General Fund Baseline Budget Forecast With Fiscal Stabilization Expense After AB 506 Savings ($ in Mil.)

Baseline Budget:	**11-12**	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**	**19-20**	**20-21**
Total Revenue	158.8	156.4	155.6	157.0	159.9	163.4	167.5	171.8	176.1	180.6
Total Expense	167.5	177.5	186.8	188.4	196.2	198.0	200.4	202.8	206.5	210.0
Net Shortfall	(8.7)	(21.2)	(31.2)	(31.4)	(36.4)	(34.6)	(32.9)	(31.0)	(30.4)	(29.4)
Fiscal Stabilization:										
Deferred Maintenance	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Technology/Workers Comp	-	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Eliminate Furloughs/Other	-	1.2	1.3	2.5	2.7	2.8	2.9	3.0	3.1	3.2
2% Salary/Health COLAs	-	-	-	-	2.4	4.9	7.5	10.2	12.9	15.8
Total Added Expense	-	3.2	3.3	4.5	7.1	9.7	12.4	15.2	18.0	21.0
Shortfall After Adds to Baseline	(8.7)	(24.3)	(34.5)	(35.9)	(43.5)	(44.3)	(45.2)	(46.2)	(48.4)	(50.4)
2/28/12 Council Actions:	15.2	-	-	-	-	-	-	-	-	-
AB 506 Savings:										
Labor	-	4.8	5.3	5.4	5.4	5.5	5.5	5.6	5.7	5.7
Retirees	-	7.1	9.6	10.4	11.2	11.5	12.2	12.9	13.7	14.5
Debt	-	10.5	11.7	11.9	11.9	11.9	10.2	10.2	10.2	10.4
Other Contracts/Claimants	-	2.6	2.6	2.6	2.6	2.6	2.5	2.2	2.2	2.2
Total AB 506 Savings	-	25.0	29.1	30.2	31.2	31.5	30.5	30.9	31.8	32.8
Shortfall After AB 506 Savings	6.6	0.7	(5.4)	(5.7)	(12.3)	(12.8)	(14.8)	(15.3)	(16.6)	(17.6)
Beginning Available Balance	(6.6)	-	0.7	(4.7)	(10.3)	(22.6)	(35.4)	(50.2)	(65.5)	(82.1)
Ending Available Balance	-	0.7	(4.7)	(10.3)	(22.6)	(35.4)	(50.2)	(65.5)	(82.1)	(99.8)

The following chart shows the level of the baseline-only net shortfall compared to the baseline plus fiscal stabilization expenses, and compares them to the total annual savings estimated to result from the City's AB 506 financial restructuring proposals. The debt category includes other contracts and claimants. To completely close the gap the intended solutions would have to reach or surpass the dashed line representing the baseline plus stabilization shortfall. Unfortunately, it does not.



The following chart compares shortfall levels after the proposed AB 506 savings at the (1) baseline budget level, (2) baseline budget with fiscal stabilization, and (3) with the increased expense levels associated with restoration of pay and benefits added to the second scenario.



As stated in the principles for the proposal, these proposals are intended to do more than allow the City to “get by” for another year.   If the City is to be a fully functioning municipality providing needed services to our community, it is essential that sufficient changes be made in our cost structure to move the City toward health and sustainability.

The challenge is that the total savings from the City's proposals, alone, is not enough to get the City to financial health, and indeed is not even enough to match our best-case projected deficit. Further, none of these outcomes produces sufficient net resources for a General Fund reserve, which is essential for the City's fundamental fiscal security. Finally, even if the City were to achieve a balanced budget at the "stabilized" level ("baseline plus adds"), that budget would remain insolvent in terms of service delivery because it continues the current inadequately low level of City services, and does not allow for increased service levels to meet a growing population and needs in future years.

Therefore, to eliminate the shortfalls and create an adequate reserve of at least 10% of total expense, it is important to note that additional cost reductions, new revenue, or a combination of both are required for the City to be financially sustainable in the future. The City's unrestricted revenues which can be used for General Fund purposes are not and will not be sufficient for the foreseeable future.

One option for closing the remaining gap is additional expense reductions, which are within the authority of the City Council to enact. However, further reductions will exacerbate the current level of service delivery insolvency. The other option is revenue increases, which except in limited instances involving fees, requires voter approval. Depending on the level of tax increase, the deficits could be erased while maintaining current service levels. A case also could be made for higher tax increases to improve service levels, which will ultimately be needed to move Stockton forward. However, obtaining approval for tax increases in the current environment will not be feasible unless the City shows it has developed budget discipline in order to provide support for such approval, and as a start this will take implementation of the AB 506 plan regarding labor, retirees, debt and other contracts and claimants. Appropriate budget strategies will be developed in the fiscal year FY12-13 budget process and subsequent years to close the gap remaining after the conclusion of the AB 506 process.

For more information on the City's current long-range budget forecast, see Attachment 1.

List of Attachments:

1. Baseline General Fund Budget Forecast – Prior to AB 506 Restructuring
2. Summary of Changes in Staffing Levels and Summary of Pay and Benefit Cuts by Labor Unit
3. Labor MOUs Incorporating Proposed Labor Proposal Changes
4. Summary of City Survey Agencies on Retiree Medical Benefit
5. Summary of City Survey Agencies on Sick Leave at Separation Benefits
6. Debt Proposal Detail

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Attachment 1

Baseline General Fund Budget Forecast – Prior to AB 506 Restructuring

Property Tax – This tax comprises 27% of total General Fund revenues in FY12-13, and includes property tax in lieu of vehicle license fees. At $42.3 million, revenue is down 24% from the peak of $55.5 million in FY08-09. The following table shows the historical and estimated percent increases in property tax revenue:

09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
-12.1%	-4.0%	-5.0%	-4.9%	-3.6%	0.0%	2.0%	3.0%	4.0%	4.0%	4.0%	4.0%

The FY11-12 estimate was supplied by HdL Companies, the City's property tax consultant. Future years were projected by staff based on discussions with the consultant, county assessor, local developers, and taking into account local economic trends. Given the ongoing decline in median sales price (down throughout 2011, and a 4% drop in January), another decline is projected for FY13-14, followed by a net zero growth in FY14-15. By FY15-16, it is projected that value increases will be added under Prop 8[3], and increasing levels of new construction will push the ongoing growth rate to 4% annually by FY18-19. This is a mid-range estimate, given that there will be higher and lower growth years, and as the early 1980's, mid-1990's and last several years attest, there will be negative growth years as well.

Sales Tax – This tax comprises 25% of total General Fund revenues in FY12-13. At $38.0 million, revenue is down 10% from the peak of $42.1 million in FY07-08. The following table shows the historical and estimated percent increases in sales tax revenue, which has been updated since the 4/23/12 forecast:

09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
-12.4%	6.0%	6.7%	6.6%	2.3%	3.3%	3.2%	3.5%	3.5%	3.5%	3.5%	3.5%

The estimates for FY12-13 through FY14-15 were supplied by HdL Companies, the City's sales tax consultant. Future years reflect a mid-range growth estimate (which is higher than the 20-year average of CPI at 2.5%). Again, this is a mid-range estimate, taking into account that some years will be higher, and others lower (or negative). In addition to the effects of general economic conditions, there is continued downward pressure on sale tax levels from an ongoing shift to untaxed services, and increasing on-line purchases that avoid sales tax payment.

Utility Users Tax – The General Fund's third largest revenue source is the 6% utility user's tax on gas, electric, telecommunications, cable TV and water. This tax raises $31.4 million annually (20% of General Fund revenue), but grows at a slow rate as shown below, in part because of limited new construction,

[3] Under the California property tax system, the assessor may grant reductions in assessed value either as a result of appeals by property owners based on a drop in the market value below the base year value as adjusted under Prop 13, or even absent such appeals if the assessor determines that general market values have so declined. In San Joaquin and many other counties, assessors granted blanket reductions based on the significant decline in market values over the past 4 years. However, absent change of ownership locking in that new lower value as a base, in the event market values again increase, the assessed value of a property may increase by more than the 2% cap under Proposition 13 up to a maximum of the adjusted base value. *Ibid.*

telecommunications trends, and customer conservation efforts. The irony is that the city is discussing a Climate Action Plan that will by encouraging conservation. Water conservation efforts mandated by state law are having and will continue to have a similar effect.

09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
-0.4%	0.9%	0.8%	0.5%	0.4%	0.4%	1.0%	1.5%	1.5%	1.5%	1.5%	1.5%

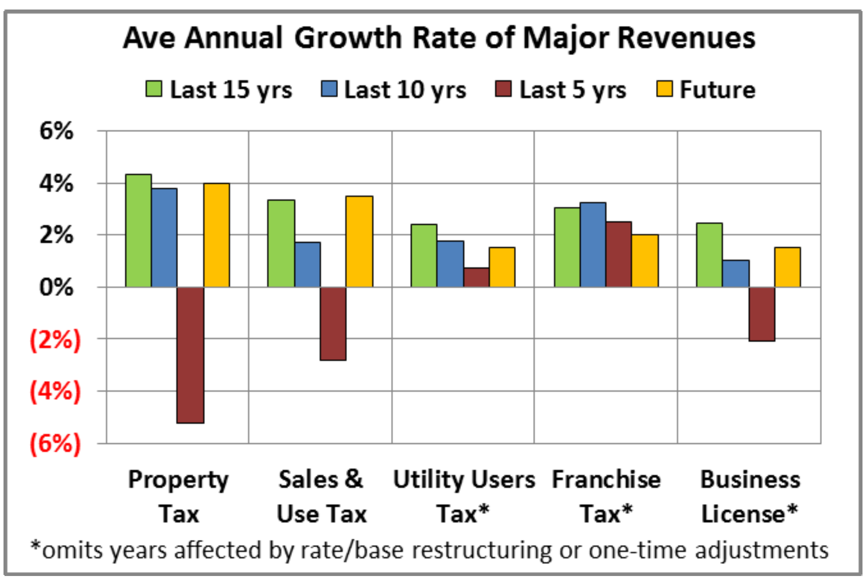
Franchise Tax – The 4th largest revenue source is the franchise tax on PG&E, cable TV/video and waste haulers annually (8% of General Fund revenue). Similar to the UUT, this $11.7 million tax is somewhat volatile, being based on franchisee gross receipts. It should be noted that the growth in FY11-12 and projected decrease in FY12-13 are due to certain one-time adjustments in the revenue source. Slower population growth, conservation and telecommunication industry trends will depress future revenue growth. The following estimates have been updated since the 4/23/12 forecast.

09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
-2.2%	1.3%	6.1%	-4.4%	1.1%	1.1%	1.5%	2.0%	2.0%	2.0%	2.0%	2.0%

Business License Tax – The 5th largest revenue source is the $9.2 million business license tax, which comprises 6% of General Fund revenue. This tax on business gross receipts reflects changes in the overall economy, and is expected to grow slowly in coming years, given local economic conditions.

09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21
1.0%	-0.4%	-1.1%	1.0%	1.0%	1.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

The following chart shows the historical average annual growth rate over the long-term (15 years), medium-term (10 years) and short-term (5 years) for these five largest revenues, in comparison to the ongoing future growth rate for that revenue source contained in the budget forecast.[4]



[4] Selected year growth rates were omitted from the calculations if affected by restructuring of tax rates or base or other significant one-time adjustments, so just the "normal" volatility would be counted for comparison purposes.

Revenue Gap

Since FY08-09 the City has suffered significant revenue losses due to the deteriorated local economy. Total ongoing General Fund revenues (less one-time revenues/transfers in) have dropped from approximately $203.1 million in FY08-09 to $158.8 million in FY11-12, and further reductions are forecast. The table below shows that the gap in ongoing revenues has grown steadily since FY08-09. If the actual ongoing revenues in that year had grown by a modest 3% annually, the City should be expecting $208.5 million of revenue in the upcoming FY12-13, yet the outlook is for only $156.4 million, a gap of $52.4 million. The magnitude of this gap, and that fact that it continues to grow, has created havoc with the General Fund budget.

General Fund Ongoing Revenue Gap

($ in Millions)	08-09	09-10	10-11	11-12	12-13
Revenue FY08-09 Actual	203.1				
less: one-time revenues	(17.9)				
Baseline revenue +3% growth	185.2	190.8	196.5	202.4	208.5
Revenue-actual/projected*	185.2	166.5	163.4	158.8	156.4
Revenue Gap	-	24.3	33.1	43.6	52.1

Budget Model

The City and Management Partners is providing to interested parties its budget model for its updated 5/7/12 version of the General Fund budget forecast. Assumptions are contained in the Excel spreadsheet, which shows the impact of the City's AB 506 proposals for financial restructuring. It also contains modeling capability to review the impact of alternative revenue and expense assumptions. Accompanying the budget model is a description of how the model works, and a review of the changes made to the 4/23/12 version.

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City of Stockton Budget Forecast

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenues										
Property Tax	44,512,970	42,352,859	40,809,416	40,809,416	41,625,604	42,874,372	44,589,347	46,372,921	48,227,838	50,156,952
Sales Tax	36,989,825	39,413,490	40,321,265	41,655,620	42,978,695	44,482,950	46,039,853	47,651,248	49,319,041	51,045,208
Utility Users Tax	31,236,736	31,386,600	31,500,200	31,630,500	31,946,805	32,426,007	32,912,397	33,406,083	33,907,174	34,415,782
Franchise Tax	12,207,238	11,671,576	11,800,000	11,931,000	12,109,965	12,352,164	12,599,208	12,851,192	13,108,216	13,370,380
Business License Tax	9,145,000	9,235,000	9,327,000	9,420,000	9,561,300	9,704,720	9,850,290	9,998,045	10,148,015	10,300,236
Hotel/Motel Tax	1,800,000	1,811,000	1,829,000	1,847,000	1,865,470	1,884,125	1,902,966	1,921,996	1,941,216	1,960,628
Document Transfer Tax	604,000	613,000	621,000	629,000	638,435	648,012	657,732	667,598	677,612	687,776
Motor Vehicle License	-	-	-	-	-	-	-	-	-	-
Interest Income	140,250	5,102	(29,625)	(111,524)	(244,929)	(431,639)	(637,037)	(861,076)	(1,098,918)	(1,354,013)
Program Revenues										
Fire Contracts	4,915,879	3,839,000	3,801,000	3,763,000	3,744,185	3,725,464	3,706,837	3,688,303	3,669,861	3,651,512
Code Enforcement	3,266,084	2,770,739	2,826,154	2,882,677	2,882,677	2,882,677	2,882,677	2,882,677	2,882,677	2,882,677
Charges for Services	1,971,385	1,973,056	1,992,787	2,012,714	2,032,841	2,053,169	2,073,700	2,094,436	2,115,380	2,136,534
Fines & Forfeitures	1,393,500	1,400,000	1,588,000	1,603,880	1,635,958	1,668,677	1,702,050	1,736,091	1,770,813	1,806,229
Revenues from Other Agencies	742,400	703,000	430,000	435,000	435,000	435,000	435,000	435,000	435,000	435,000
Licenses & Permits	458,226	461,826	471,063	475,773	480,531	485,336	490,190	495,091	500,042	505,043
Misc Other Revenues	(54,658)	(62,644)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)	(60,000)
Interfund Reimbursements										
Indirect Cost Allocation	5,300,000	5,390,100	5,120,595	4,864,565	5,042,484	5,127,030	5,235,346	5,341,516	5,455,428	5,571,275
Workers Comp Reimbursement	-	-	-	-	-	-	-	-	-	-
Refunds & Reimbursements	820,431	133,000	314,000	320,000	326,080	332,276	338,589	345,022	351,577	358,257
Rents/Leases/Concessions	2,588,557	2,508,571	2,173,700	2,138,000	2,108,068	2,078,555	2,049,455	2,020,763	1,992,472	1,964,578
Transfers In										
Parking-SEB Debt	774,515	776,000	776,000	776,000	773,364	775,029	775,895	775,963	775,232	773,427
	158,812,338	156,381,275	155,611,554	157,022,622	159,882,533	163,443,922	167,544,495	171,762,868	176,118,677	180,607,478
Expenditures										
Salaries and Benefits										
Salaries - Safety	37,232,821	37,677,139	38,129,265	38,586,816	39,049,858	39,518,456	39,992,677	40,472,590	40,958,261	41,449,760
Salaries - Non-Safety	16,955,006	17,157,338	17,363,226	17,571,585	17,782,444	17,995,833	18,211,783	18,430,324	18,651,488	18,875,306
Salaries-Part time, Temporary	605,194	605,194	605,194	605,194	605,194	605,194	605,194	605,194	605,194	605,194
Pension - CalPERS	16,075,185	16,806,002	18,934,482	19,660,525	20,414,408	21,197,198	22,010,005	22,853,978	23,730,314	24,640,253
Pension - CalPERS Addition	-	-	3,413,002	3,453,958	5,195,406	5,257,751	5,320,844	5,384,694	5,449,310	5,514,702
Pension - Bonds	5,615,200	5,791,009	6,230,630	6,330,594	6,433,041	6,533,734	6,639,603	6,746,653	6,853,767	6,963,034
Health, Dental, Vision-Employee	9,455,563	8,829,231	8,829,231	8,829,231	8,829,231	8,829,231	8,829,231	8,829,231	8,829,231	8,829,231
Health - Retirees	7,959,094	8,946,636	9,556,560	10,374,467	11,245,131	11,470,807	12,230,470	12,892,528	13,698,715	14,503,402
Workers Compensation	5,660,652	6,627,821	6,760,377	6,895,585	7,033,497	7,174,167	7,317,650	7,464,003	7,613,283	7,765,549
Other Pay and Benefits	7,091,431	6,605,792	6,678,402	6,751,884	6,826,174	6,901,281	6,977,215	7,053,985	7,131,599	7,210,067
Overtime & Standby/Callback	6,842,859	6,842,859	6,922,981	7,004,044	7,086,056	7,169,029	7,252,973	7,337,900	7,423,822	7,510,749
Compensated Absences	4,347,003	5,204,952	5,301,456	5,150,010	5,150,010	5,150,010	5,150,010	5,150,010	5,150,010	5,150,010
Salaries - Safety-Expiring Grants	-	2,954,850	3,153,495	3,373,100	6,174,462	6,248,556	6,323,539	6,399,421	6,476,214	6,553,929
Reductions/reorganizations	(2,758,000)	(648,000)	(666,158)	(684,824)	(704,014)	(723,741)	(744,021)	(764,870)	(786,302)	(808,335)
Budgeted Vacancy Savings	-	(1,234,008)	(1,705,758)	(2,142,435)	(2,681,297)	(3,153,205)	(3,652,929)	(4,167,958)	(4,553,547)	(4,642,886)
	115,082,008	122,166,815	129,506,386	131,759,734	138,439,601	140,174,301	142,464,244	144,687,684	147,231,359	150,119,965

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City of Stockton Budget Forecast

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Services and Supplies										
Internal Services-Equip	12,182,833	13,299,313	13,565,299	13,836,605	14,113,337	14,395,604	14,683,516	14,977,187	15,276,730	15,582,265
General Liability Insurance	2,283,248	2,947,771	2,983,144	3,018,942	3,055,169	3,091,831	3,128,933	3,166,480	3,204,478	3,242,932
Utilities	2,437,740	2,486,495	2,456,225	2,505,349	2,555,456	2,606,565	2,658,697	2,711,871	2,766,108	2,821,430
Maintenance & Repair Services	2,444,155	2,444,155	2,480,817	2,518,030	2,555,800	2,594,137	2,633,049	2,672,545	2,712,633	2,753,322
Labor/Legal Services	5,122,803	2,122,803	2,222,803	2,222,803	2,256,145	2,289,987	2,324,337	2,359,202	2,394,590	2,430,509
General Expenses	5,871,867	6,113,390	6,987,085	7,088,256	7,190,892	7,295,014	7,400,643	7,507,802	7,616,513	7,726,798
Tax Collection & Election	2,804,000	3,482,216	2,837,545	2,583,175	2,903,007	2,638,037	2,973,118	2,694,149	3,045,225	2,751,543
	33,146,646	32,896,142	33,532,918	33,773,160	34,629,806	34,911,175	35,802,293	36,089,235	37,016,277	37,308,798
Other Program Support										
Library, Recreation & Golf Funds	6,735,022	7,410,817	7,763,858	7,933,133	8,106,099	8,282,837	8,463,428	8,647,956	8,836,508	9,029,170
Entertainment Venues Fund	2,441,299	2,235,445	2,041,019	2,084,401	2,128,704	2,173,949	2,220,156	2,267,345	2,315,537	2,364,753
Other Program Support	950,000	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000	625,000	625,000	625,000	625,000
Debt - Redevelopment	3,100,000	2,537,389	2,930,065	2,928,855	2,975,760	3,028,344	3,081,518	2,816,580	2,873,389	2,930,541
Debt - Bonds/Other										
Jarvis Utilities Settlement	1,112,998	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032
2009 LRBs-Pub Facil Bonds/CIP	622,981	1,082,191	1,081,641	1,224,559	1,135,152	1,043,959	950,430	849,173	744,785	745,279
2006 LRBs-Parking (SEB)	832,328	794,097	776,000	776,000	773,364	775,029	775,895	775,963	775,232	773,427
DBW-Debt - Marina	732,000	834,701	834,701	834,701	834,701	834,701	834,701	834,701	834,701	834,701
2007 VRDLRB - 400 E.Main	800,000	2,580,723	3,356,419	2,069,242	2,218,233	1,817,313	1,820,232	1,832,995	1,869,545	1,899,292
Debt - Other/Admin	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
	17,576,628	20,477,394	21,785,735	20,852,923	21,174,045	20,958,164	20,148,392	20,026,745	20,251,727	20,579,195
Contingency	1,659,824	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Total Expenditures	167,465,106	177,540,352	186,825,039	188,385,817	196,243,452	198,043,640	200,414,928	202,803,664	206,499,364	210,007,958
Reserve Use	-	-	-	-	-	-	-	-	-	-
Baseline Budget Shortfall	(8,652,768)	(21,159,077)	(31,213,486)	(31,363,196)	(36,360,919)	(34,599,718)	(32,870,434)	(31,040,795)	(30,380,686)	(29,400,480)
Fiscal Stabilization										
Fund Deferred Maintenance										
Ongoing Excess of Current	-	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Increased ISF Contributions										
Computer/Technology	-	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Rebuild Internal Service Reserves	-	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Employee Cost Increases										
End Work Schedule Modification	-	1,129,016	1,220,356	2,485,951	2,632,989	2,735,708	2,842,762	2,954,348	3,070,676	3,191,966
Salary COLAs	-	-	-	-	2,233,159	4,549,905	6,952,947	9,444,997	12,028,831	14,707,356
Health COLAs	-	-	-	-	176,585	353,169	529,754	706,338	882,923	1,059,508
Increased Services	-	-	-	-	-	-	-	-	-	-
Repay 2/28/12 Transfers	-	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Fiscal Stability Adds	-	3,179,016	3,270,356	4,535,951	7,092,732	9,688,782	12,375,462	15,155,683	18,032,430	21,008,829
Shortfall After Fiscal Stabilization	(8,652,768)	(24,338,093)	(34,483,841)	(35,899,147)	(43,453,652)	(44,288,500)	(45,245,896)	(46,196,478)	(48,413,117)	(50,409,309)
2/28/12 Council Action										
Total 2/28/12 Actions	15,205,924	-	-	-	-	-	-	-	-	-

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City of Stockton Budget Forecast

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
AB 506 Proposals (Savings)										
Debt Relief/Contracts/Claims										
Jarvis Utilities Fund settlement		1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032	1,127,032
Marina Towers settlement		312,500	312,500	312,500	312,500	312,500	197,500	(115,000)	(115,000)	(115,000)
Sports Teams		1,170,051	1,170,051	1,170,051	1,170,051	1,170,051	1,170,051	1,170,051	1,170,051	1,170,051
2009 LRBs-Pub Facil Bonds/CIP		1,082,191	1,081,641	1,224,559	1,135,152	1,043,959	950,430	849,173	744,785	745,279
2004 & 2006 LRBs-All Parking		-	-	-	-	-	-	-	-	-
DBW-Debt - Marina		684,701	684,701	684,701	684,701	684,701	684,701	684,701	684,701	684,701
2003 RDA Housing		318,798	989,681	988,471	986,539	988,822	601,686	595,882	597,725	598,263
2007 VRDLRB - 400 E.Main		2,672,344	2,672,344	2,671,719	2,670,469	2,668,594	1,331,219	1,337,781	1,367,313	1,389,188
2007-POBs		5,791,009	6,230,630	6,330,594	6,433,041	6,533,734	6,639,603	6,746,653	6,853,767	6,963,034
Subtotal Debt Relief	-	13,158,625	14,268,579	14,509,627	14,519,485	14,529,392	12,702,221	12,396,273	12,430,373	12,562,547
Labor Cost Reductions										
Total Proposed Changes		4,811,676	5,308,407	5,363,689	5,419,628	5,476,233	5,533,512	5,591,472	5,650,123	5,709,471
Subtotal Labor Reductions	-	4,811,676	5,308,407	5,363,689	5,419,628	5,476,233	5,533,512	5,591,472	5,650,123	5,709,471
Retiree Medical Reductions										
Total Proposed Changes		7,053,107	9,556,560	10,374,467	11,245,131	11,470,807	12,230,470	12,892,528	13,698,715	14,503,402
Subtotal Retiree Medical	-	7,053,107	9,556,560	10,374,467	11,245,131	11,470,807	12,230,470	12,892,528	13,698,715	14,503,402
Total AB 506 Asks	-	25,023,408	29,133,547	30,247,783	31,184,244	31,476,432	30,466,203	30,880,274	31,779,211	32,775,419
Additional Savings/Resources										
Efficiencies/Alt Service/Fees	-	-	-	-	-	-	-	-	-	-
Service & Staffing Reductions	-	-	-	-	-	-	-	-	-	-
New Revenue Sources	-	-	-	-	-	-	-	-	-	-
Total Other Cost Reductions	-	-	-	-	-	-	-	-	-	-
Net Annual After Adjustments	6,553,156	685,315	(5,350,295)	(5,651,364)	(12,269,407)	(12,812,068)	(14,779,693)	(15,316,205)	(16,633,906)	(17,633,890)
Beginning Available Balance	(6,553,156)	0	685,315	(4,664,980)	(10,316,344)	(22,585,751)	(35,397,819)	(50,177,512)	(65,493,716)	(82,127,622)
Ending Available Balance	-	685,315	(4,664,980)	(10,316,344)	(22,585,751)	(35,397,819)	(50,177,512)	(65,493,716)	(82,127,622)	(99,761,511)
Balance as % of Total Expense	-	0.4%	(2.9%)	(6.3%)	(13.1%)	(20.1%)	(27.5%)	(35.0%)	(42.6%)	(50.3%)

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Attachment 2

Summary of Changes in Staffing Levels
and
Summary of Pay and Benefit Cuts by Labor Unit

CITY OF STOCKTON 3/1/2012

PERSONNEL BY FUND

	2008-09	2009-10	2010-11	Plan B 2011-12	Mid-Year FY 2011-12	3 yr % Change from 2008-09
General Fund and Tax-Supported Programs						
Programs						
Police-Sworn	401	322	320	322	322	(79)
Police-Non Sworn	235	214	202	188	188	(47)
Fire	253	265	226	177	177	(76)
Public Works	163	78	59	62	62	(101)
Library	105	69	57	57	57	(48)
Recreation	46	32	27	26	26	(20)
Economic Development	5	1	2	2	1	(4)
	1,208	**981**	**893**	**834**	**833**	**(375)**
Adminstration						
City Council	9	8	8	8	8	(1)
City Manager	18	13	11	10	10	(8)
City Attorney	17	14	13	11	11	(6)
City Clerk	8	6	5	6	6	(2)
City Auditor	7	4	4	4	4	(3)
Admin Services	63	49	57	59	59	(4)
Human Resources	20	18	15	14	14	(6)
Non Departmental	10	10	10	10	10	0
	152	**122**	**123**	**122**	**122**	**(30)**
Total General Fund	**1,360**	**1,103**	**1,016**	**956**	**955**	**(405)**
% Change vs. 2008-09			-25%	-30%	-472%	-30%
Enterprise Funds						
CS - Golf Course	3	2	2	2	0	(3)
Municipal Utilities	168	187	197	198	208	40
	171	**189**	**199**	**200**	**208**	**37**
Special Revenue/District Funds						
ED - Central Parking District	3	3	3	3	3	0
ED - Community Dev. Block Grant	13	12	11	9	8	(5)
Fire - Development Services	10	8	8	8	8	(2)
CD - Development Services	88	45	42	34	34	(54)
Fire - Emergency Communications	17	0	0	0	0	(17)
PW - Maintenance District	1	2	4	2	2	1
ED - Redevelopment	24	20	10	6	6	(18)
Fire - Measure W	28	23	20	20	20	(8)
Police - Measure W	40	22	21	21	21	(19)
PW - Solid Waste & Recycling	6	9	9	9	9	3
PW - Street Maintenance/ Gas Tax	24	65	66	64	64	40
	254	**209**	**194**	**176**	**175**	**(79)**
Internal Service Funds						
PW - Fleet	31	26	27	27	27	(4)
HR - General Liability Insurance	3	3	4	6	6	3
HR - Workers' Compensation	4	4	4	3	3	(1)
HR - Health Benefits	3	4	4	5	5	2
AS - Information Technology	52	40	39	36	36	(16)
AS - Radio	2	2	2	2	2	0
AS - Telecommunications	1	1	1	1	1	0
AS - Document Services	4	3	3	2	2	(2)
	100	**83**	**84**	**82**	**82**	**(18)**
Capital Improvement Funds						
CS - Public Art	1	0	0	0	0	(1)
	1	**0**	**0**	**0**	**0**	**(1)**
Total All Funds	**1,886**	**1,584**	**1,493**	**1,414**	**1,420**	**(466)**
% Change vs. 2008-09		-16%	-21%	-25%	-25%	-25%

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Unrepresented

			Type of Concession					
Description	Date	Reduction/ Cost	Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 08/09								
Implementation of (80 hours) furlough in FY 08/09	10/22/2008	3.85%		x	x			
Freeze all pay increases including Class and Compensation Survey increases and cost of living increases for FY 09/10	Reso adopted 12/16/2008				x			
FY 09/10								
Continuation of (96 hours) furlough for FY 09/10	7/1/2009	4.62%		x	x			
FY 10/11								
Continuation of (96 hours) furlough for FY 10/11	7/1/2010	4.62%		x	x			
Employees began paying a portion of their medical premium	7/1/2010	ee $100.00 ee+1 $175.00 ee+fam $250.00				x		
Modification to City Medical Health Plan, increased deductible from $150 to $200 per person and from $450 to $500 for family. Increased RX co-pays	7/1/2010					x		
FY 11/12								
Continuation of (96 hours) furlough in FY 11/12	7/1/2011	4.62%		x	x			
Elimination of retiree medical benefits for employees hired on or after August 1, 2011	8/1/2011					x	x	
Reduction in sick leave accruals from 15 days per year to 12 and makes other changes to sick leave cash out provisions at retirement	7/1/2011		x					
Reduction in the vacation leave accruals, and makes other changes to vacation sell back and accrual maximums	7/1/2011		x					
Elimination of extra salary payments over statuatory requirements for Workers Compensation	7/1/2011				x			
Elimination of Longevity Add Pay (2.5%) and Grandfathered current incumbents (as of July 1, 2012)	8/1/2011	2.50%			x			
Elimination of Educational Incentive Pay (EIP)	8/1/2011	3.00%			x			
Employees to pay 7% PERS contribution	8/1/2011	7% or 9%					x	
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

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Mid-Management/Supervisory B & C

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 08/09								
Implementation of (80 hours) furlough in FY 08/09	10/22/2008	3.85%		x	x			
FY 09/10								
Continuation of (96 hours) furlough in FY 09/10	1/1/09 MOU	4.62%		x	x			
FY 10/11								
Continuation of (96 hours) furlough in FY 10/11	6/22/2010	4.62%		x	x			
Forfeiture of the 2.5% salary increase schedule to occur on July 1, 2010	6/22/2010	2.50%			x			
Modification to City Health Plan, increased deductible from $150 to $200 per person and from $450 to $500 for family. Increased RX co-pays	6/22/2010					x		
FY 11/12								
Continuation of (96 hours) furlough in FY 11/12	7/1/2011	4.62%		x	x			
Elimination of scheduled cost of living increase of 2.5% effective July 1, 2011	7/1/2011	2.50%			x			
Elimination of extra salary payments over statuatory requirements for Workers Compensation	7/1/2011				x			
Elimination of retiree medical benefits for employees hired on or after July 1, 2011	7/1/2011					x	x	
Agree that City may amend its PERS contract to provide a lower benefit 2@60 with 3 year final average salary.	7/1/2011						x	
Elimination of Education Incentive Pay (EIP)	8/1/2011	3.00%			x			
Employees to pay 7% PERS contribution	8/1/2011	7.00%					x	
Elimination of Longevity Add Pay (2.5%) and Grandfathered current incumbents (as of July 1, 2012).	9/1/2011	2.50%			x			
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

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Fire Mgt

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 08/09								
Suspend 3.68% cost of living adjustment received July 1, 2008, to be reinstated January 1, 2011.	1/1/2009	3.68%			x			
Uniform Allowance for April 2009 suspended	4/1/2009	$600						x
FY 09/10								
Eliminate salary increase scheduled for July 1, 2009	7/1/2009	4.50%- 8.50%			x			
Uniform Allowance 50% reduction for FY 09/10	10/1/2009	$600						x
Limit, through attrition, the number of paramedics assigned to the Fire Department. New hires, shall not receive paramedic add pay unless operationally required and accounted for in the Fire Dept's budget.	10/20/2009	3.00%			x			x
Paramedic add pay suspended for Firefighters who have not paid for, or started, a paramedic training program by September 15, 2009, shall not receive additional pay unless and until operationally required and accounted for in the Fire Dept's budget.	10/20/2009	3.00%			x			
FY 10/11								
Imposed due to fiscal emergency: Medical plan changes increase to Rx co-pay and increase from $150 to $200 per individual and $450 to $500 for family deductible.	6/22/2010					x		
Imposed due to fiscal emergency:Suspension of Compensation Increases in 2010-2011 (8.5% salary increase, 3.68% cost of living increase)		8.50% and 3.68%			x			
Imposed due to fiscal emergency: Closure of Truck 4	6/22/2010							x
Imposed due to fiscal emergency: Freeze on Employee Leave usage to curtail overtime costs.	6/22/2010		x					
FY 11/12								
Elimination of retiree medical benefits for employees hired on or after July 1, 2011	7/1/2011					x	x	
PERS amended contract to adopt a new tier that provides 3@55 formula with 3 years Final Average Salary.	7/1/2011						x	
Eliminate minimum staffing requirements	7/1/2011							x
Eliminate 2010 salary increases and no additional salary increase shall occur during the term of the MOU (7/1/11 - 6/30/12)	7/1/2011	4.50% - 8.50%			x			
Reduction of sick leave accruals from 15 days per year to 12 for employees and makes other changes to sick leave cash out provision at retirement.	7/1/2011		x					
Reduction in vacation leave accruals and makes other changes to vacation sell back and accrual maximums.	7/1/2011		x					
Eliminate Longevity vacation benefits. Also eliminates any ability to sell back any of these hours except at separation.	7/1/2011		x					
Elimination of Tiller Add Pay and Unassigned Paramedic Add Pay, except Grandfathers current employees receiving these add pays.	8/1/2011	Tiller 5.00%, Unassigned Para 5.00%			x			
Employees to pay 9% PERS contribution	8/1/2011	9.00%					x	
Elimination of Educational Incentive Pay (EIP)	8/1/2011	3.00%			x			
Elimination of Longevity Add Pay and Grandfathered current incumbents (as of July 1, 2012) with a 2.5% reduction to Add Pay	8/1/2011	2.50%			x			
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

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Fire

Description	Date	Reduction/ Cost	Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
			Type of Concession					
FY 08/09								
Suspend 3.68% cost of living adjustment received July 1, 2008, to be reinstated January 1, 2011.	1/1/2009	3.68%			x			
Uniform Allowance for April 2009 suspended	4/1/2009	$600						x
FY 09/10								
Eliminate salary increase scheduled for July 1, 2009	7/1/2009	4.50%- 8.50%			x			
Uniform Allowance 50% reduction for FY 09/10	10/1/2009	$600						x
Limit, through attrition, the number of paramedics assigned to the Fire Department. New hires, shall not receive paramedic add pay unless operationally required and accounted for in the Fire Dept's budget.	10/20/2009	5.00%, 6.00% or 11.00%			x			x
Paramedic add pay suspended for Firefighters who have not paid for, or started, a paramedic training program by September 15, 2009, shall not receive additional pay unless and until operationally required and accounted for in the Fire Dept's budget.	10/20/2009	5.00%, 6.00% or 11.00%			x			
FY 10/11								
Imposed due to fiscal emergency: Medical plan changes increase to Rx co-pay and increase from $150 to $200 per individual and $450 to $500 for family deductible.	6/22/2010					x		
Imposed due to fiscal emergency:Suspension of Compensation Increases in 2010-2011 (8.5% salary increase, 3.68% cost of living increase)					x			
Imposed due to fiscal emergency: Closure of Truck 4	6/22/2010							x
Imposed due to fiscal emergency: Freeze on Employee Leave usage to curtail overtime costs.	6/22/2010		x					
FY 11/12								
Elimination of retiree medical benefits for employees hired on or after July 1, 2011	7/1/2011					x	x	
PERS amended contract to adopt a new tier that provides 3@55 formula with 3 years Final Average Salary.	7/1/2011						x	
Eliminate minimum staffing requirements	7/1/2011							x
Eliminate 2010 salary increases and no additional salary increase shall occur during the term of the MOU (7/1/11 - 6/30/12)	7/1/2011	4.50% - 8.50%			x			
Reduction of sick leave accruals from 15 days per year to 12 for employees and makes other changes to sick leave cash out provision at retirement.	7/1/2011		x					
Reduction in vacation leave accruals and makes other changes to vacation sell back and accrual maximums.	7/1/2011		x					
Eliminate Longevity vacation benefits. Also eliminates any ability to sell back any of these hours except at separation.	7/1/2011		x					
Elimination of Tiller Add Pay and Unassigned Paramedic Add Pay, except Grandfathers current employees receiving these add pays.	8/1/2011	Tiller 5.00%, Unassigned Para 5.00%			x			
Employees to pay 9% PERS contribution	8/1/2011	9.00					x	
Elimination of Educational Incentive Pay (EIP)	8/1/2011	3.00			x			
Elimination of Longevity Add Pay and Grandfathered current incumbents (as of July 1, 2012) with a 2.5% reduction to Add Pay	8/1/2011	2.50			x			
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

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Police Managers (SPMA)

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY09/10								
50% reduction of uniform allowance 2009	7/1/2009	$900						x
Furlough: Lump sum reduction of 5.5% (114 hours of unpaid leave) to be deducted from the retroactive pay increase July 1, 2008 for FY 08/09	7/1/2009	5.50%		x	x			
Defer the 2.5% cost of living increase scheduled for July 1, 2009 and will not be eligible for another increase until June 30, 2010. The cost of living increase for July 1, 2010 will equal 2%	7/1/2009	2.50%			x			
Furlough: Each member of SPMA will incur another pay reduction of 5.5% (114 hours of unpaid leave). This reduction will occur over an equalized 12-month period beginning July 1, 2009 for FY 09/10	7/1/2009	5.50%		x	x			
Suspension of the Employer Contribution into the Retiree Medical Trust until July 1, 2010 and the pay out from the Retiree Medical Trust is deferred until 2013.	7/1/2009	3.00%				x	x	
Medical contribution paid by SPMA members will be increased to $100 per month effective July 1, 2009	7/1/2009	from $44.50 to $100 per month				x		
FY10/11								
Eliminate cost of living increase scheduled for June 30, 2010	7/1/2010	2.50%			x			
Continuation of (96 hours) furlough in FY 10/11	7/1/2010	4.62%		x	x			
Employees pay 4.5% toward PERS contribution	7/1/2010	4.50%					x	
Modification to City Health Plan, increased deductible from $150 to $200 per person and from $450 to $500 for family. Increased RX co-pays	7/1/2010					x		
Uniform Allowance reduced to $1,500 (from $1,900) per year for the term of the contract	7/1/2010	$400						x
FY 11/12								
Continuation of (96 hours) furlough in FY 11/12	7/1/2011	4.62%		x	x			
Employees pay an additional 4.5% toward PERS contribution	7/1/2011	4.50%					x	
Elimination of all City and employee contributions to retiree medical trust	7/1/2011	2.00%				x	x	
Elimination of Longevity Add Pay and Grandfathered current incumbents (as of July 1, 2012) with a 2.5% reduction to Add Pay	8/1/2011	2.50%			x			
Elimination of Education Incentive Pay (EIP) and Grandfathered current incumbents from August 1, 2011 through June 30, 2012	8/1/2011	3.00%			x			
SPMA Members to make a pre-tax in-lieu contribution of $481.00 per month toward the cost of their medical/dental/ vision plan coverage. This amount shall be in addition to any employee payment required by section 14.1 for one year in lieu of 2011 EIP reductions.						x		
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

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Police Officers (SPOA)

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 09/10								
Retroactive Lump sum furlough deduction from the retroactive salary increase paid to SPOA members (73 hour) for the 08/09 fiscal year	7/1/2009	3.50%		x	x			
Furlough deduction of 3% and creation of furlough bank of 62 hours for FY 09/10	7/1/2009	3.00%		x	x			
Waive 2.5% salary adjustment scheduled for July 1, 2009. SPOA shall not be entitled to any other salary adjustment until 1/1/11 at such time SPOA members are entitled to 3% salary adjustment of base salary.	7/1/2009	2.50%			x			
Employee contribution to medical insurance increased to $100 per month	7/1/2009	$100/per month				x		
Increase in insurance deductible from $150 to $200 per individual and/or $450 to $500 per family.	7/1/2009	$50 per year per individual				x		
Reduction of Uniform allowance by 50% ($900 to $450) for fiscal year 09/10	7/1/2009	$450 per year						x
Suspension of 2% City contribution into the Deferred Compensation Plan through June 30, 2012	7/1/2009	2.00%					x	
Suspension of 2% City contribution into employee's Retiree Medical Trust through June 30, 2011.	7/1/2009	2.00%				x	x	
FY 10/11								
Continuation of (62 hours) furlough leave in FY 10/11	7/1/2010	3.00%		x	x			
Modification to City Health Plan, increased deductible from $150 to $200 per person and from $450 to $500 for family. Increased RX co-pays	7/1/2010					x		
Reduction of Uniform allowance by 50% ($950 to $475) for fiscal year 10/11	7/1/2010	$475 per year						x
Imposed due to emergency measures: Continue suspension of City's payment of 2% for retiree medical.	7/1/2010	2.00%				x	x	
Imposed due to emergency measures: Continue suspension of City's payment of 2% deferred compensation;	7/1/2010	2.00%					x	
FY 11/12								
Continuation of (62 hours) furlough leave in FY 11/12	7/1/2011	3.00%		x	x			
Imposed due to emergency measures: Temporary elimination of Master Officer Pay	8/1/2011	5.00%			x			
Imposed due to emergency measures: Temporary elimination of Longevity Add Pay and Grandfathered current incumbents (as of July 1, 2012) with a 5% reduction to Add Pay	8/1/2011	5.00%			x			
Imposed due to emergency measures: Temporary elimination of Education Incentive Pay (EIP)	8/1/2011	3.00%			x			
Imposed due to emeregency measures: Temporary elimination of City's payment of the employee's PERS contribution of 9%, effective 8/1/11.	8/1/2011	9.00%					x	
Imposed due to emergency measures: Temporary maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Imposed due to emergency measures: Temporary medical plan design changes from 100% to 80%	9/1/2011					x		

Highlighted concessions temporary and subject to pending litigation

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STAMA

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 10/11								
Freeze salary increases for term of contract 7/1/10 - 6/30/12	7/1/2010				x			
Implementation of (96 hours) furlough in FY 10/11	7/1/2010	4.62%		x	x			
Modification to City Health Plan, increased deductible from $150 to $200 per person and from $450 to $500 for family. Increased RX co-pays	7/1/2010					x		
Employee Health Contribution. Upon the expiration of furloughs, employees to contribute 20% of the annual applicable rate as determined each year by the City's actuary for employee, employee plus one, and employee plus family.	7/1/2010	ee $100 ee+1 $175 ee+fam $250				x		
Changed add pays to flat rate rather than %	7/1/2010				x			
Vacation sell back of no more than 40 hours	7/1/2010		x					
Employees may not cash out any unused sick leave at separation	7/1/2010		x					
Retiree Health for employee's hired **on or after** July 1, 2010 VEBA (defined contribution) City contributes 2%	7/1/2010					x	x	
Employees hired **on or afer** July 1, 2010 shall pay 7% of the Employer's portion of PERS	7/1/2010	7.00%					x	
Employees hired **prior to July 1, 2010** shall pay 5.5% of the employer contribution to PERS	7/1/2010	5.50%					x	
FY 11/12								
Continuation of (96 hours) Furlough in FY 11-12	7/1/2011	4.62%		x	x			
Elimination of extra salary payments over statuatory requirements for Workers Compensation	7/1/2011				x			
Elimination of retiree medical benefits for employees hired on or after July 1, 2011	7/1/2011					x	x	
Agrees the City may amend its PERS contract to provide lower tier 2@60 with 3 year final average	7/1/2011						x	
Agrees that the employees shall pay an additional 1.5% of the Employer's PERS for a total contribution of 7%	8/1/2011	1.50%					x	
Elimination of Educational Incentive Pay (EIP) effective 8/1/11	8/1/2011	3.00%			x			
Elimination of Longevity Add Pay and Grandfathered current incumbents (as of July 1, 2012)	8/1/2011	2.50%			x			
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

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O&M

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 11/12								
Implementation of (96 hours) furlough in FY 11/12	7/1/2011	4.62%		x	x			
Elimination of retiree medical benefits for employees hired on or after July 1, 2011	7/1/2011					x	x	
Agree that the City may amend its PERS contract to provide lower tier 2@60 with 3 year final average	7/1/2011						x	
Reduction in sick leave accruals from 15 days per year to 12 and makes other changes to sick leave cash out provisions at retirement	7/1/2011		x					
Reduction in the vacation leave accruals, and makes other changes to vacation sell back and accrual maximums	7/1/2011		x					
Elimination of extra salary payments over statuatory requirements for Workers Compensation	7/1/2011				x			
Employees to pay 7% PERS contribution	8/1/2011	7.00%					x	
Elimination of Educational Incentive Pay (EIP) effective 8/1/11	8/1/2011	3.00%			x			
Elimination of Longevity Add Pay and Grandfathered current incumbents (as of July 1, 2012)	8/1/2011	2.50%			x			
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

Water Supervisors

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 11/12								
Implementation of (96 hours) furlough FY 11/12	7/1/2011	4.62%		x	x			
Elimination of retiree medical benefits for employees hired on or after July 1, 2011	7/1/2011					x	x	
Agrees the City may amend its PERS contract to provide lower tier 2@60 with 3 year final average	7/1/2011						x	
Reduction in sick leave accruals from 15 days per year to 12 and makes other changes to sick leave cash out provisions at retirement	7/1/2011		x					
Reduction in the vacation leave accruals, and makes other changes to vacation sell back and accrual maximums	7/1/2011		x					
Employees to pay 7% PERS contribution	8/1/2011	7.00%					x	
Elimination of Educational Incentive Pay (EIP) effective 8/1/11	8/1/2011	3.00%			x			
Elimination of Longevity Add Pay and Grandfathered current incumbents (as of July 1, 2012)	8/1/2011	2.50%			x			
Maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Medical plan design changes from 100% to 80%	9/1/2011					x		

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Stockton City Employees Association (SCEA)

Description	Date	Reduction/ Cost	Type of Concession: Leave Benefit Change (Vacation	Work Schedule/ Furlough	Base Salary Change/ Impact	Health Insurance	Retirement	Other
FY 08/09								
Implementation of (80 hours) furlough in FY 08/09	10/22/2008	3.85%		x	x			
Retiree Medical Trust in lieu of regular Retiree Medical Allowance or to the Supplemental Allowance (after age 65) for employees hired on or after January 1, 2009	1/1/2009					x	x	
Elimination of Compensatory Time Off for Fire Telecommunicators	1/1/2009				x			
FY 09/10								
Continuation of (96 hours) of furlough in FY 09/10	7/1/2009	4.62%		x	x			
FY 10/11								
Continuation of (96 hours) of furlough in FY 10/11	6/22/2010	4.62%		x	x			
Forfeit 2.5% salary increase scheduled for July 1, 2010 through Letter of Agreement.	6/22/2010	2.50%			x			
Modification to City Health Plan, increased deductible from $150 to $200 per person and from $450 to $500 for family. Increased RX co-pays	11/15/2010					x		
FY 11/12								
Imposed due to emergency measures: Temporary suspension of the FY 11/12 cost of living increase of 2.5% effective July 1, 2011	7/1/2011	2.50%			x			
Imposed due to emergency measures: Temporary continuation of 96 hours of furlough in FY 11/12	7/1/2011	4.62%		x	x			
Imposed due to emergency measures: Temporary elimination of Longevity Add Pay	8/1/2011	2.50%			x			
Imposed due to emergency measures: Temporary elimination of Education Incentive Pay (EIP)	8/1/2011	3.00%			x			
Imposed due to emergency measures: Temporary elimination of City's payment of the employee's PERS contribution of 7%, effective 8/1/11.	8/1/2011	7.00%					x	
Imposed due to emergency measures: Temporary maximum city contribution to health plan	9/1/2011	ee $89.13 ee+1 $164.19 ee+fam $216.28				x		
Imposed due to emergency measures: Temporary medical plan design changes from 100% to 80%	9/1/2011					x		

Highlighted sections temporary and subject to pending litigation