

City of Stockton

*City Council/Successor Agency of the Redevelopment Agency/Public Financing Authority
Concurrent Agenda*



Meeting Agenda - Final

Tuesday, August 13, 2013

Closed Session 4:00 | Regular Session 5:30

Council Chamber, City Hall, 425 N El Dorado Street

City Council

Anthony Silva, Mayor/Chair
Paul Canepa, Vice Mayor/Vice Chair (District 3)
Elbert H. Holman Jr. (District 1)
Katherine M. Miller (District 2)
Moses Zapien (District 4)
Dyane Burgos (District 5)
Michael D. Tubbs (District 6)

1. CLOSED SESSION CALL TO ORDER/ROLL CALL**2. ADDITIONS TO CLOSED SESSION AGENDA****3. ANNOUNCEMENT OF CLOSED SESSION****3.1 13-0645 CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION**

Number of Cases: Five

Name of Case: Wells Fargo Bank v. City of Stockton (San Joaquin County Superior Court Case No. 39-2012-00277662)

Name of Case: Wells Fargo Bank, National Association, as Indenture Trustee v. City of Stockton (San Joaquin County Superior Court Case No. 39-2012-00280741)

Name of Case: In re City of Stockton, California - Debtor (United States Bankruptcy Court, Eastern District of California Case No. 2012-32118)

Name of Case: City of Stockton v. Marina Towers LLC, et al. (San Joaquin County Superior Court Case No. CV022054)

Name of Case: Richard Price, et al. v. City of Stockton, Redevelopment Agency, et al. (United States District Court, Eastern District Case No. CIV.S-02-0065 LKK JFM)

This Closed Session is authorized pursuant to Section 54956.9(a) of the Government Code.

Department: City Clerk

3.2 13-0646 CONFERENCE WITH LABOR NEGOTIATOR

Agency Designated Representative: Bob Deis

Employee Organizations: Unrepresented Units, Stockton City Employees' Association, Operating Engineer's Local 3, Mid-Management/Supervisory Level Unit, Unrepresented Management/Confidential, Law Department, Stockton Police Management Association, Stockton Firefighters Local 456 International Association of Firefighters, Stockton Fire Management, Stockton Police Officers' Association (SPOA)

This Closed Session is authorized pursuant to Section 54957.6(a) of the Government Code.

Department: City Attorney

3.3 13-0647 CONFERENCE WITH LEGAL COUNSEL - POTENTIAL LITIGATION

Number of Cases: One

Based on existing facts and circumstances, there is significant exposure to litigation pursuant to Government Code Section 54956.9(b).

Department: City Attorney

3.4 13-0648 CONFERENCE WITH LEGAL COUNSEL - INITIATION OF LITIGATION

Number of Cases: Two

Based on existing facts and circumstances, there is significant exposure to litigation pursuant to Government Code Section 54956.9(c).

Department: City Attorney

4. PUBLIC COMMENT*

**Citizens may comment on any subject within the jurisdiction of the City Council/Successor Agency to the Redevelopment Agency, including items on the Agenda. Each speaker is limited to three minutes. Speakers must submit "Request to Speak" cards to the City Clerk, and be prepared to speak when called. No speaker cards will be received after the close of the Citizen's Comments portion of the meeting.*

5. RECESS TO CLOSED SESSION**6. REGULAR SESSION CALL TO ORDER/ROLL CALL****7. INVOCATION/PLEDGE TO FLAG****8. REPORT OF ACTION TAKEN IN CLOSED SESSION****9. ADDITIONS TO REGULAR SESSION AGENDA****

***Additions to the Agenda - Government Code Section 54954.2(b)(2), allows members of the City Council present at the meeting to take immediate action, with either a two-thirds or unanimous vote, to place an item on the agenda that action must be taken and that the item came to the attention of the City subsequent to the agenda being posted.*

10. PROCLAMATIONS, COMMENDATIONS, OR INVITATIONS**11. CITIZENS' COMMENTS, ANNOUNCEMENTS, OR INVITATIONS*****12. CONSENT AGENDA****12.1 13-0624 LOAN TO SERVICE FIRST OF NORTHERN CALIFORNIA FOR THE ACQUISITION OF THE COVENTRY APARTMENTS LOCATED AT**

4825 KENTFIELD ROADRECOMMENDATION

It is recommended that City Council adopt a resolution:

1. Approving a \$1,710,800 Neighborhood Stabilization Program (NSP) loan to Service First of Northern California to acquire the Coventry Apartments located at 4825 Kentfield Road and fund predevelopment activities for the project; and
2. Authorizing the City Manager, or his designee, to execute all documents and take all necessary and appropriate actions to carry out the purpose and intent of the resolution.

Department: Economic Development

12.2 13-0632

AMENDMENT TO MASTER SERVICES CONTRACT WITH SIEGFRIED ENGINEERING, INC. FOR THE REHABILITATION OF DON AVENUE (M13010) AND THORNTON ROAD SANITARY PUMP STATIONS (M13009)RECOMMENDATION

It is recommended that the City Council approve a motion authorizing the City Manager to execute an Amendment to the Master Services Contract for Design, Geotechnical Testing, Plan Review, and Surveying Services, with Siegfried Engineering, Inc. of Stockton in the amount of \$43,195, to prepare plans and specifications for the rehabilitation of the Don Avenue and Thornton Road Sanitary Pump Stations.

This motion will also authorize the City Manager to take appropriate actions to carry out the purpose and intent of this motion.

Department: Municipal Utilities

12.3 13-0635

APPROVAL OF THE EASTERN SAN JOAQUIN COUNTY GROUNDWATER BASIN AUTHORITY JOINT EXERCISE OF POWERS AGREEMENTRECOMMENDATION

It is recommended that the City Council approve a motion authorizing the City Manager to execute a Joint Exercise of Powers Agreement of the Eastern San Joaquin County Groundwater Basin Authority through June 30, 2015. The annual membership cost is \$20,000.

Department: Municipal Utilities

13. ADMINISTRATIVE MATTERS

14. UNFINISHED BUSINESS**15. NEW BUSINESS****15.1 13-0618 CONVERSION TO A FIXED RATE OF INTEREST ON THE \$55,000,000 STOCKTON PUBLIC FINANCING AUTHORITY VARIABLE RATE DEMAND WATER REVENUE BONDS, SERIES 2010A (DELTA WATER SUPPLY PROJECT) (THE "BONDS")****RECOMMENDATION**

Adopt Resolutions of the City of Stockton and the Stockton Public Financing Authority authorizing the conversion of the Bonds from a variable rate of interest to a fixed rate of interest through the final term of the Bonds (October 1, 2040) at a true fixed interest cost not to exceed 6.75%, approving all documents and directing certain actions in connection therewith:

Resolution of the City of Stockton:

1. Authorizing the conversion of the interest rate period and amendment of certain provisions of the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project);
2. Approving the form of and authorizing the execution and delivery of a First Supplemental Installment Purchase Contract,
3. Approving the Bond Purchase Contract,
4. Approving the Preliminary Remarketing Memorandum
5. Approving the Continuing Disclosure Certificate; and
6. Authorizing and approving actions necessary to carry out the conversion and remarketing of the bonds.

Resolution of the Stockton Public Financing Authority:

1. Authorizing the conversion of the interest rate period and amendment of certain provisions of the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project);
2. Approving the form of and authorizing the execution and delivery of a First Supplemental Indenture,
3. Approving the First Supplemental Installment Purchase Contract,
4. Approving the Bond Purchase Contract,
5. Approving a Preliminary Remarketing Memorandum Relating thereto; and
6. Authorizing and approving actions necessary to carry out the conversion and remarketing of the bonds.

Department: Administrative Services

15.2 13-0633 NORTH INTERSTATE 5 REHABILITATION PROJECT**RECOMMENDATION**

None. For information only.

Department: Public Works

15.3 13-0634 ACCEPT FEDERAL FUNDING FOR CONSTRUCTION AND APPROPRIATE FUNDS TO THE PROJECT ACCOUNT OF THE WEBER AVENUE STREETScape BEAUTIFICATION, PHASE 2 (PROJECT NO. 13-27)

RECOMMENDATION

It is recommended that the City Council approve a motion authorizing the City Manager to accept \$2,610,122 in federal Transportation Enhancement (TE) funds, and \$551,800 in federal Regional Surface Transportation Program (RSTP) funds, and to appropriate the \$3,161,922 total to the project account for the Weber Avenue Streetscape Beautification, Phase 2 (Project No. 13-27).

It is further recommended that the motion authorize the City Manager to take appropriate actions to carry out the purpose and intent of this motion.

Department: Public Works

15.4 13-0636 RESPONSES TO 2012-2013 GRAND JURY REPORTS

RECOMMENDATION

It is recommended that by motion action the City Council approve the attached responses to the five 2012-2013 Grand Jury Reports related to the City of Stockton and authorize the City Manager to sign the response letters on behalf of the City and transmit them to the Presiding Judge of the Superior Court of San Joaquin County.

Department: City Manager

16. HEARINGS***

****Speakers should hold comments on items listed as a Hearing until the Hearing is opened. If a large number of people desire to speak at a Hearing, the Mayor/Chair may reduce the amount of time allocated to each speaker to three (3) minutes.*

17. COUNCIL COMMENTS

18. ADJOURNMENT

INFORMATIONAL ITEMS

All proceedings before the City Council/Successor Agency to the Redevelopment Agency/Public Financing Authority are conducted in English. The City of Stockton does not furnish interpreters and, if one is needed, it shall be the responsibility of the person

needing one. In compliance with the Americans with Disabilities Act, if you need special assistance to participate in the meetings of the City Council/Successor Agency to the Redevelopment Agency/Public Financing Authority, please contact the Office of the City Clerk at (209) 937-8459 at least 48 hours prior to the meeting to enable the City/Agency to make reasonable arrangements to ensure accessibility.

Any writings or documents provided to a majority of the City Council regarding any item on this agenda will be made available for public inspection at the Office of the City Clerk located at 425 North El Dorado Street, Stockton, California 95202 during normal business hours or by calling (209) 937-8459. The Agenda is available on the City of Stockton Website: www.stocktongov.com

CHALLENGING CITY DECISIONS: The time limit within which to commence any lawsuit or legal challenge to any quasi-adjudicative decision made by the City is governed by Section 1094.6 of the Code of Civil Procedure, unless a shorter limitation period is specified by any other provision. Under Section 1094.6, any lawsuit or legal challenge to any quasi-adjudicative decision made by the City must be filed no later than the 90th day following the date on which such decision becomes final. Any lawsuit or legal challenge, which is not filed within that 90-day period, will be barred. If a person wishes to challenge the nature of the above section in court, they may be limited to raising only those issues they or someone else raised at the meeting described in this notice, or in written correspondence delivered to the City of Stockton, at or prior to the meeting. In addition, judicial challenge may be limited or barred where the interest

CONSENT AGENDA



AGENDA ITEM 12.01



Legislation Text

File #: 13-0624, **Version:** 1

LOAN TO SERVICE FIRST OF NORTHERN CALIFORNIA FOR THE ACQUISITION OF THE COVENTRY APARTMENTS LOCATED AT 4825 KENTFIELD ROAD

RECOMMENDATION

It is recommended that City Council adopt a resolution:

1. Approving a \$1,710,800 Neighborhood Stabilization Program (NSP) loan to Service First of Northern California to acquire the Coventry Apartments located at 4825 Kentfield Road and fund predevelopment activities for the project; and
2. Authorizing the City Manager, or his designee, to execute all documents and take all necessary and appropriate actions to carry out the purpose and intent of the resolution.

Summary

Service First of Northern California (“Service First”) negotiated an agreement for the purchase of the Coventry Apartments, a 46-unit apartment complex located at 4825 Kentfield Road (Attachment A - Vicinity Map). Service First has requested a loan from the City for \$1,710,800, which includes \$1,675,000 for the purchase of the property and \$35,800 for closing and predevelopment costs associated with the project. After Service First acquires the property it will complete a comprehensive assessment of the apartment building to determine the extent of the rehabilitation that will be required and the cost of the work. An initial inspection of the property has taken place which determined a moderate amount of rehabilitation will be required, but until the property is acquired, the comprehensive assessment cannot be completed.

Upon completion of the rehabilitation, the project will provide affordable housing for 45 households with incomes at or below 50 percent of Area Median Income. The remaining unit will be occupied by an on-site manager.

DISCUSSION

Background

Service First is one of the non-profits that has partnered with the City to implement the Neighborhood Stabilization Program (NSP). The City has received two allocations of NSP funds known as NSP1 and NSP3 from the U.S. Department of Housing and Urban Development (HUD) to help stabilize neighborhoods that have been affected by foreclosures. The program guidelines established by HUD limit the use of NSP funds to the following activities: acquisition, rehabilitation, and resale of foreclosed single-family homes; acquisition, rehabilitation, and rental of foreclosed properties; down payment assistance to households purchasing a foreclosed home; and demolition of foreclosed

residential properties. Homes can be resold to households with incomes up to 120 percent of the Area Median Income (AMI).

The NSP guidelines also require that at least 25 percent of the original grant allocation and 25 percent of the program income generated from the resale of property go to activities that benefit households earning not more than 50 percent of Area Median Income (\$31,500 per year for a family of four). In order to meet this requirement, the Council approved an Amendment to the 2008-2009 One- Year Action Plan ,which included Acquisition, Rehabilitation, and Rental activity for NSP1 in November 2008 (Attachment B - Resolution 08-0460) and for NSP3 in February 2011 (Attachment C - Resolution 11-0041).

To implement the rental activity, Service First, along with several of the other non-profits participating in the NSP single-family activity, have been working with banks and realtors to acquire apartment complexes that are in foreclosure. The process can be lengthy and difficult because NSP requires that properties be acquired at a price that is at least one percent below the appraised value. Often the end result is that the properties are sold to market-rate buyers.

Present Situation

Service First has successfully negotiated for the purchase of the Coventry Apartments, located at 4825 Kentfield Road. (See Attachment A- Vicinity map and Attachment D-Photos of the Property.) The complex sits on approximately one acre and consists of 46 units (seventeen one-bedroom and twenty-nine two-bedroom units). The purchase price of the property is \$1,675,000. Service First is also requesting an additional \$35,800 to assist with closing and predevelopment costs for a total loan amount of \$1,710,800. The predevelopment costs include property insurance, inspections, and architecture and engineering fees.

This is a two- phase project with Phase I being the acquisition/predevelopment activities and Phase II being the rehabilitation of the property. After Service First acquires the property, a comprehensive assessment of the site will be conducted to ascertain what rehabilitation will be required and what the costs will be.

The apartments were constructed in 1964 and while it appears there have been no major renovations, many of the units have been updated with dual-pane windows and new showers and linoleum. Service First has done an initial inspection of the property which determined a moderate amount of rehabilitation will be needed, including renovation of the interior of the units, a new roof, updates to the exterior of the building, and re-grading and repaving of the parking lot. Preliminary cost estimates for the rehabilitation are \$700,000 to \$800,000, but until a thorough inspection occurs a complete scope of work cannot be developed.

A second loan request for rehabilitation costs will be brought before Council as soon as estimates are obtained. Sufficient funds are available for the rehabilitation phase of the project either from NSP or the HOME Investment Partnerships Program (HOME). The table on the following page summarizes the NSP funds currently available for rental projects:

Source	Amount
NSP1 Program Income	\$2,640,000
NSP3 Remaining Allocation	\$616,149
NSP3 Program Income	\$370,600
TOTAL	\$3,626,749

In addition to NSP funds, the City receives HOME funds from HUD which may also be used to provide affordable housing. The City uses the HOME funds for single-family rehabilitation programs, its down payment assistance program, and for construction and rehabilitation of multi-family housing. The City currently has approximately \$850,000 of HOME funds available which could be used for the rehabilitation.

It is recommended that the acquisition loan be provided with NSP funds. It is further recommended that the term for the acquisition/predevelopment loan be for one year at zero percent interest. The acquisition/predevelopment loan will be combined with the rehabilitation loan, including the length of the loan, the interest rate, and the repayment terms, if approved by Council, into one final loan. The terms of the final loan will be established at the time that the Council considers the rehabilitation loan. Typically, City loans of this type are provided as 30 or 55 year loans at 3 percent interest. Service First is in the process of developing the project pro forma which will be used in determining the final loan terms. Providing the short-term acquisition/predevelopment loan for one-year at zero percent interest and later combining it with the rehabilitation loan for a longer loan term with interest is consistent with the terms and process that has been used for all of the apartment complex acquisitions which have been completed using NSP funds.

NSP does not have the same requirements as the HOME program regarding project start and completion dates. So even though NSP does not require that rehabilitation begin within one-year of property acquisition, staff is recommending a one-year time limit for this acquisition loan to ensure that the project proceeds in a timely manner.

Escrow is expected to close in September 2013. The rehabilitation loan request will come before Council by November 2013, which, if approved, would allow rehabilitation to begin shortly thereafter. The rehabilitation is expected to take nine to twelve months for completion.

The City has previously made significant investments in the Kentfield neighborhood. In 2008, the City loaned \$6.3 million to Visionary Home Builders for the acquisition and rehabilitation of the 44-unit apartment complex immediately south of Coventry Apartments. Also in 2008, loans totaling \$9.6 million were made to Bridge Housing to acquire and rehabilitate a 90-unit apartment complex at 4545 Kentfield Road. The City also funded improvements to the neighborhood park across the street from the project, installed traffic calming measures, and conducted targeted code enforcement efforts in an effort to rehabilitate the neighborhood. This project will further assist in improving the neighborhood, which in the past has shown signs of disinvestment and poor management for multi-family properties.

As previously noted, Service First has participated in the City's NSP program to acquire foreclosed single-family residences, rehabilitate them, and resell them to qualified households since 2009. In addition, they have also completed the rehabilitation of a 16-unit apartment complex that was acquired with NSP funds.

FINANCIAL SUMMARY

No General Funds dollars will be used for this project.

Adequate funds in the amount of \$1,710,800 are available using Neighborhood Stabilization Program entitlement and program income. \$986,757 needs to be appropriated from Account Number 064-8526-640.20.51 (NSP3) and \$724,043 from Account Number 063-8526-640.20.51 (NSP1).

Attachment A - Vicinity Map

Attachment B - Resolution 08-0460

Attachment C - Resolution 11-0041

Attachment D - Photos



Resolution No. 08-0460

STOCKTON CITY COUNCIL

RESOLUTION APPROVING AN AMENDMENT TO THE 2008-2009 ONE-YEAR ACTION PLAN AND AUTHORIZING THE CITY MANAGER TO TAKE ACTIONS WHICH ARE APPROPRIATE TO CARRY OUT THE PURPOSE AND INTENT OF THE RESOLUTION

Title III of the Housing and Economic Recovery Act 2008 appropriated funds for emergency assistance for acquisition and redevelopment of abandoned and foreclosed homes and residential properties. These funds are to be considered Community Development Block Grant (CDBG) funds and the grant program is to be commonly referred to as the Neighborhood Stabilization Program (NSP); and


The U.S. Department of Housing and Community Development (HUD) established the guidelines for implementation of the Neighborhood Stabilization Program and determined that each grantee eligible to receive Neighborhood Stabilization Program funds already receives an annual Community Development Block Grant allocation and therefore has a Consolidated Plan, and annual action plan, and a citizen participation plan. The Consolidated Plans already discuss housing needs related to the major U.S. Department of Housing and Community Development grant programs and the annual action plan describes the activities budgeted under each of those annual programs. The U.S. Department of Housing and Community Development has therefore determined that a grantee's use of its Neighborhood Stabilization Program grant is a substantial amendment to its current approved consolidated plan and annual action plan; and

In compliance with 24 CFR, Parts 91, 92, 570, 574, 576 and 968, which address the Consolidated Plan Submission for Community Planning and Development Programs, the City prepared a Consolidated Plan for CDBG, HOME and ESG Programs; and

Each year the City prepares a One-Year Action Plan, which updates the Consolidated Plan; and

The 2008-2009 One Year Action Plan was approved by the City Council on April 29, 2008, and subsequently approved by the U.S. Department of Housing and Urban Development ("HUD") on June 18, 2008; and

On October 22, 2008, the proposed amendment to the 2008-2009 One-Year Action Plan was presented to the Council's Housing Committee for consideration, a public notice was published in *The Record*, the local newspaper of general circulation and posted on the City's website, thereby beginning a 15-day period for citizens to review and comment on the draft amendment; and

City Atty: 
Review _____
Date November 12, 2008

Attachment B

On November 18, 2008, the City Council held a public hearing, during which: (1) staff presented an in-depth review of the proposed amendment to the 2008-2009 One-Year Action Plan, and (2) citizens were provided an opportunity to comment, and all persons requesting to be heard were heard and their comments considered; now, therefore,

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

1. The City Council hereby approves the amendment to the 2008-2009 One-Year Action Plan and all related documents, all of which are on file with the Office of the City Clerk and the Housing Department.

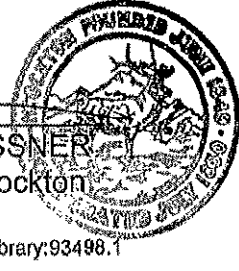
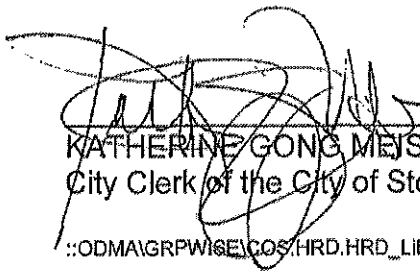
2. The City Manager is authorized to take other actions as are appropriate to carry out the purpose and intent of this resolution, including furnishing such additional documentation as may be required by HUD and the execution of any related documents.

PASSED, APPROVED AND ADOPTED NOV 18 2008



EDWARD J. CHAVEZ, Mayor
of the City of Stockton

ATTEST:



KATHERINE GONG MEISSNER
City Clerk of the City of Stockton

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11-0041

Resolution No.

STOCKTON CITY COUNCIL

RESOLUTION APPROVING AN AMENDMENT TO THE 2010-2011 ONE-YEAR ACTION PLAN FOR THE NEIGHBORHOOD STABILIZATION PROGRAM 3

Section 1497 of the Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) allocated funds for the purpose of assisting in the redevelopment of abandoned and foreclosed homes. These funds represent a third round of the Neighborhood Stabilization Program (NSP) and are known as NSP3. The City received a prior allocation of NSP funds through the Housing and Economic Recovery Act of 2008 (HERA). The NSP funds are considered a special allocation of Community Development Block Grant (CDBG) funds; and

The U.S. Department of Housing and Urban Development (HUD) established the guidelines for implementation of the NSP3 and determined that many of the jurisdictions already receive an annual CDBG allocation and therefore have a Consolidated Plan, an annual action plan, and a citizen participation plan. The Consolidated Plan discusses housing needs related to the major HUD grant programs and the annual action plan describes the activities budgeted under each of those annual programs. HUD has therefore determined that a grantee's use of its NSP grant is a substantial amendment to its current approved Consolidated Plan and annual action plan; and


In compliance with 24 C.F.R., Parts 91, 92, 570, 574, 576, and 968, which address the Consolidated Plan Submission for Community Planning and Development Programs, the City prepared a Consolidated Plan for CDBG, HOME and Emergency Shelter Grant Programs; and

Each year the City prepares a One-Year Action Plan, which updates the Consolidated Plan; and

The 2010-11 One-Year Action Plan was approved by the City Council on April 27, 2010, and subsequently approved by the HUD on August 25, 2010; and

On January 25, 2011, the proposed amendment to the 2010-11 One-Year Action Plan was presented to the Council's Ad-Hoc Housing Committee for consideration. On January 28, 2011, a public notice was published in *The Record*, the local newspaper of general circulation and posted on the City's website, thereby beginning a 15-day period for citizens to review and comment on the draft amendment; and

On February 15, 2011, the City Council held a public hearing, during which: (1) staff presented an in-depth review of the proposed amendment to the 2010-2011 One-Year Action Plan, and (2) citizens were provided an opportunity to comment, and

City Atty:
Review 
Date February 8, 2011

Attachment C

all persons requesting to be heard were heard and their comments considered; now, therefore,

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

1. The City Council hereby approves the amendment to the 2010-2011 One-Year Action Plan and all related documents, all of which are on file with the Office of the City Clerk and the Economic Development Department.

2. The City Manager is authorized to take other actions as are appropriate to carry out the purpose and intent of this resolution, including furnishing such additional documentation as may be required by HUD and the execution of any related documents.

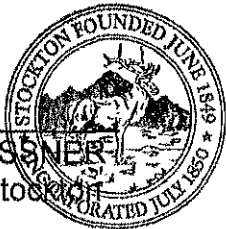
PASSED, APPROVED, and ADOPTED FEB 15 2011.



ANN JOHNSTON, Mayor
of the City of Stockton

ATTEST:

for Bonnie Paige
KATHERINE GONGMEISSNER
City Clerk of the City of Stockton



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Attachment D





Resolution No.

STOCKTON CITY COUNCIL

RESOLUTION APPROVING A \$1,710,800 NEIGHBORHOOD STABILIZATION PROGRAM LOAN TO SERVICE FIRST OF NORTHERN CALIFORNIA FOR THE ACQUISITION OF THE PROPERTY LOCATED AT 4825 KENTFIELD ROAD

Service First of Northern California (Service First) is a non-profit company that has partnered with the City of Stockton since 2009 to implement the Neighborhood Stabilization Program (“NSP”); and

Service First seeks to acquire the Coventry Apartments located at 4825 Kentfield Road for the purpose of rehabilitating the property and providing 45 households with incomes at or below 50 percent of Area Median Income (AMI); and

Service First desires to borrow funds in the amount of \$1,710,800 for the purpose of acquiring the property and for predevelopment costs associated with the project; and

The City of Stockton has received two allocation of funds from the United States Department of Housing and Urban Development under the NSP known as NSP1 and NSP3; and

NSP funds are appropriate and available to fund this project; now, therefore,

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

1. The City Council hereby approves an NSP loan in the amount of \$1,710,800 to Service First for the purpose of acquiring the Coventry Apartments located at 4825 Kentfield Road and to pay for predevelopment costs associated with the project.

2. The City Manager, or his designee, is authorized to execute all documents and to take all necessary and appropriate actions to carry out the purpose and intent of this resolution.

PASSED, APPROVED, and ADOPTED August 13, 2013.

ATTEST:

ANTHONY SILVA, Mayor
of the City of Stockton

BONNIE PAIGE
City Clerk of the City of Stockton

CONSENT AGENDA



AGENDA ITEM 12.02



Legislation Text

File #: 13-0632, **Version:** 1

AMENDMENT TO MASTER SERVICES CONTRACT WITH SIEGFRIED ENGINEERING, INC. FOR THE REHABILITATION OF DON AVENUE (M13010) AND THORNTON ROAD SANITARY PUMP STATIONS (M13009)

RECOMMENDATION

It is recommended that the City Council approve a motion authorizing the City Manager to execute an Amendment to the Master Services Contract for Design, Geotechnical Testing, Plan Review, and Surveying Services, with Siegfried Engineering, Inc. of Stockton in the amount of \$43,195, to prepare plans and specifications for the rehabilitation of the Don Avenue and Thornton Road Sanitary Pump Stations.

This motion will also authorize the City Manager to take appropriate actions to carry out the purpose and intent of this motion.

Summary

The Don Avenue and Thornton Road Sanitary Pump Stations were constructed approximately 40 years ago to convey sewage from residential neighborhoods in north Stockton to the Regional Wastewater Control Facility (RWCF) for treatment. In recent years, the condition of both pump stations have necessitated increased maintenance and repairs.

If approved by Council, this action will award a contract to Siegfried Engineering, Inc., of Stockton, to prepare plans and specifications for this project, which will facilitate the replacement of the electrical and mechanical equipment at both pump stations, correct control deficiencies, and install equipment to better process fats, oils, and grease (FOG) in the system.

DISCUSSION

Background

The Don Avenue Sanitary Pump Station is located at the southeast corner of Santiago Way and Don Avenue, in the Sherwood Manor subdivision. The 41-year old facility has a pumping capacity of 1,100 gallons per minute. All existing equipment is part of original construction and is in need of replacement. A 20-foot high antenna is located adjacent to the pump station, which transmits operational status of the pumps through the Supervisory Control and Data Acquisition (SCADA) system. Over the years, Municipal Utilities staff has documented mechanical and electrical problems in the original equipment, leading to concerns about future reliability. Another concern with this station is the inability to acquire instantaneous operational status through SCADA, which is a function of antenna height.

The Thornton Road Sanitary Pump Station is located at the eastern corner of Davis Road and Thornton Road, adjacent to the Stonewood subdivision. This 39-year old station has a pumping capacity of 1,700 gallons per minute. Similarly, due to the age and condition the original equipment, it is time to rehabilitate this station as well, correct SCADA system reliability and improve processes for FOG in the system.

Present Situation

On July 13, 2010, the City Council adopted Resolution 10-0242, approving Professional Services Master Contracts for design, geotechnical, environmental, and similar professional services with numerous firms, including Siegfried Engineering, Inc. These firms provide services as needed, to accommodate the City's project schedules. The master contracts are valid for five years and reduce the administrative burden of individual project contracts. The scope of services and fees are negotiated per project and a contract amendment is executed.

Consultant selection for a project is based on the consultant's understanding of the project and approach to meeting the City's needs. Other considerations in the selection process include the firm's qualifications, experience, designated staff, cost, schedule, references, and the ability to provide services on time, within budget, and in accordance with City objectives.

The Municipal Utilities Department requested proposals for engineering design services from five consulting firms on the vendor pool list. The firms were: Provost & Pritchard Consulting Group of Modesto; Kjeldsen, Sinnock, and Neudeck, Inc. of Stockton; Siegfried Engineering, Inc. of Stockton; Peterson Brustad, Inc. of Stockton; and West Yost Associates of Davis. On June 13, 2013, three of the five firms submitted proposals as shown below.

	FIRM NAME	PROPOSED FEE
1.	Siegfried Engineering, Inc., Stockton, CA	\$ 43,195
2.	Kjeldsen, Sinnock and Neudeck, Inc., Stockton, CA	\$ 68,900
3.	West Yost Associates, Davis, CA	\$ 89,808

After evaluating the three firms' project understanding, approach to the work, qualifications of the Consultants' team, schedule, references, and cost, staff recommends Siegfried Engineering, Inc., of Stockton to prepare the plans and specifications in the amount of \$43,195.

It is estimated that the engineering design for this project will take approximately five months to complete followed by construction anticipated to start in July 2014.

FINANCIAL SUMMARY

Sufficient funds are available for FY 2013/14 in account 437-7785-670 (Sanitary Pump Station Rehabilitation) for preparation of the plans and specifications. Funding for construction at both sites will be budgeted in FY 2014/2015.

There is no impact to the General Fund, or any other unrestricted fund, from this action.

Attachment A - Amendment to Professional Services Master Contract

**AMENDMENT TO
PROFESSIONAL SERVICES MASTER CONTRACT
FOR
DESIGN, GEOTECHNICAL TESTING, PLAN REVIEW, AND SURVEYING SERVICES
REHABILITATE DON AVENUE SANITARY PUMP STATION AND THORNTON ROAD
SANITARY PUMP STATION (PROJECT NUMBER M13009 AND M13010)**

This Amendment to Design, Geotechnical Testing, Plan Review, and Surveying Services is made and entered into on _____ by and between the City of Stockton, a municipal corporation, hereinafter referred to as "CITY," and Siegfried Engineering, Inc., hereinafter referred to as "FIRM," to provide CITY a pre-design report, design plans and specifications, bidding assistance, construction administration, and as-builts.

WITNESSETH:

WHEREAS, CITY and FIRM entered into a Professional Services Master Contract for Design, Geotechnical Testing, Plan Review, and Surveying Services on July 13, 2010, as part of a vendor pool and desire to amend said Contract by specifying FIRM to provide a pre-design report, design plans and specifications, bidding assistance, construction administration, and as-builts.

NOW, THEREFORE, in consideration of these premises and the following terms and conditions, the parties hereto agree as follows:

1. Section 1, Scope of Services is hereby amended to include Rehabilitation of Don Avenue Sanitary Pump Station and Thornton Road Sanitary Pump Station (M13009 and M13010) as per Exhibit "A", attached hereto and by reference made a part hereof.

2. Section 2, Compensation is hereby amended in the amount of \$43,195 to include Exhibit "A."

3. Section 3, Schedule for Completion is hereby amended to include Exhibit "A."

4. Section 10, Notices is hereby amended to provide that FIRM shall notify the City of Stockton Municipal Utilities Department, C. Mel Lytle, Ph.D., Director, on all matters related to the work.

5. Section 13, Insurance requirements are hereby amended to the current insurance requirements set forth in Exhibit B, attached hereto and incorporated by this reference. Firm shall not commence any work before obtaining, and shall maintain in force at all times during the duration and performance of this Contract the policies of insurance specified in Exhibit B.

6. Section 14, Indemnification is hereby amended to the following: The Firm shall defend, indemnify, and hold harmless City, its officers, employees, and volunteers from and against all claims, damages, losses, and expenses, including attorney fees arising out of the performance of the work described herein, caused in whole or in part by any negligent act or omission of the Firm, any Sub-consultant, anyone directly or indirectly employed by any of them, or anyone for whose acts any of them may be liable, except where caused by the active negligence, sole negligence, or willful misconduct of the City.

7. All other terms and conditions of the Contract not expressly amended by this document shall remain unchanged and in full force and effect.

IN WITNESS WHEREOF, the parties have caused this Amendment to Contract to be executed on the date and year first written above.

ATTEST:

CITY OF STOCKTON, a municipal corporation

BONNIE PAIGE
City Clerk of the City of Stockton

By: _____
BOB DEIS
City Manager

APPROVED AS TO FORM:

"FIRM"

JOHN LUEBBERKE
CITY ATTORNEY

SIEGFRIED ENGINEERING, INC.

By: _____
City Attorney


By: 
Title: PRESIDENT

Exhibit A**Rehabilitate Don Avenue Sanitary Pump Station and Thornton Road Sanitary Pump Station****Scope of Services****Task 1 - Kick-Off and Progress Meetings**

- Siegfried will attend one (1) kick-off and three (3) progress meetings with City staff, coinciding with major project milestones.
- Deliverables - Meeting agendas.

Task 2 - Data Collection, Utility Research, Review and Assessment

- Siegfried will review and assess all available City records, plans, and electronic and hard-copy documents. For the information that is not available, Siegfried will develop a data request list for the City to conduct its own research.
- Since as-built information for the existing pump stations is limited, Siegfried will conduct a thorough field investigation of existing features including pumps, valves and piping, controls, service and power panels, and ventilation systems.
- Siegfried will have the site and adjoining area USA'd to have each utility company locate their underground facilities.
- Deliverables - Written data request list.

Task 2A - ADD ALTERNATE - Underground Utility Locator

- Siegfried has teamed with an independent utility service locator to locate utilities that may be missed by the utility companies including conduit for traffic signals and street lights. This will minimize the chance of damaging existing facilities during construction.

Task 3 - Pre-Design Report

- After consultation and consensus with City staff on the design concept, Siegfried will prepare a Pre-Design Report which details the proposed design. The Pre-Design Report will, at a minimum, include:
- Preliminary Design Plans and Profiles (30%).
- Drawing Index.
- Title blocks and drawing layouts, consistent with City practices.
- General symbols, legends and abbreviations, consistent with City practices.
- Basis of Design Report - Design data and criteria.
- Determination of the location of the Little John Digester.
- Preliminary Electrical One-Line Diagrams and Site Electrical Plans.
- Preliminary Engineer's Estimate.
- Preliminary Bypassing Plan, indicating how the pump stations will be operated during construction.
- Preliminary Design Specifications (30%) utilizing the Construction Specifications Institute (CSI) format. It is understood that the City will provide Division 0 and Division 1 for Siegfried to review, and Siegfried will provide Divisions 2-17, technical specifications including:
 - Preliminary table of contents for technical specifications.
 - Preliminary equipment list, size, and power requirements.

- Siegfried will provide a topographic survey which includes the location of existing facilities and utilities in the vicinity of the project site including utilities marked by underground utility service locators. Additionally, our survey will include verifying depths and dimensions of the wet and dry wells.
- Deliverables - Pre-Design Report (three (3) hard copies and one (1) electronic copy in PDF format), updated design schedule (three (3) hard copies and one (1) electronic copy in Microsoft Project format).

Task 4 - 60% Design

- Siegfried will prepare bid documents including plans, technical specifications (Division 2-17) in CSI format, and an Engineer's Estimate (PS&Es) and submit to the City at the 60% design level.
- Deliverables – 60% Plans (three (3) 24"x36" hard copies and one (1) electronic copy in PDF format), 60% Specifications (three (3) hard copies and one (1) electronic copy in PDF format), 60% Engineer's Estimate (three (3) hard copies and one (1) electronic copy in PDF format), updated design and construction schedules with 60% deliverables (three (3) hard copies and one (1) electronic copy in Microsoft Project format).

Task 5 - Final Design

- Siegfried will prepare bid documents including plans, technical specifications (Division 2-17) in CSI format, and an Engineer's Estimate (PS&Es) and submit to the City at the final design level.
- Deliverables – One (1) full set of 24"x36" 100% plan set on mylars, ready for City signature, one (1) hard copy set of the 100% technical specifications, final 100% Engineer's Estimate, electronic copies of plans in AutoCAD and PDF format and technical specifications in PDF and Microsoft Word formats.

Task 6 - Bidding Assistance

- Siegfried will conduct a bid analysis and make a recommendation relative to the Contract award.
- Siegfried will attend a pre-bid meeting.
- Siegfried will prepare an unlimited number of responses required for any addenda and letters of clarification issued during the bid period.
- Deliverables – Addenda, letters of clarification, bid analysis, award recommendation.

Task 7 - Construction Administration


- Siegfried will attend the pre-construction and final punch list meetings.
- Siegfried will review contractor material submittals and shop drawings, respond to requests for information (RFIs), and review contractor change order requests.
- Services do not include inspection, payment requests reviews, and testing schedules.

Task 8 - As-Builts

- Siegfried will provide the City with record drawings (as-built plans on mylar).
- It is understood that the Contractor's hand-written as-builts will be provided to Siegfried by the City once the project has been completed by the Contractor.
- Deliverables - Record drawings on Mylar.

COST PROPOSAL
DON AVENUE AND THORNTON ROAD
SANITARY PUMP STATIONS
JUNE 13, 2013
Siegfried

Exhibit A

	TASK 1	TASK 2	TASK 3	TASK 4	TASK 5	TASK 6	TASK 7	TASK 8	TOTAL HOURS	HOURLY CHARGE RATES	TOTAL FEES	TASK 2A - Add Alternate Underground Utility Locator
	Kick-Off and Progress Meetings	Data Collection, Utility Research, Review and Assessment	Pre-Design Report	60% Design	Final Design	Bidding Assistance	Construction Administration	As-Builts				
Classification/Subconsultant												
Principal-in-Charge	2	1	2	3	2	1	2		13	\$195	\$2,535	
Associate, Survey Manager		1							1	\$160	\$160	
Landscape Architect										\$138		
PM, Senior Civil Engineer	6	10	24	24	16	8	24	2	114	\$140	\$15,960	
Senior Technician										\$110		
Technician		10	24	24	16	2	8	2	86	\$86	\$7,396	
Clerical			2	2	1				5	\$63	\$315	
1 Person Survey Crew		12							12	\$152	\$1,824	
Electrical Engineering	\$1,287	\$616	\$1,419	\$3,025	\$737	\$308	\$924	\$682			\$8,998	
Mechanical Engineering	\$275		\$248	\$908	\$138	\$308	\$330				\$2,207	
Underground Locator												\$3,300
Total Hours	8	34	52	53	35	11	34	4	231			
Category Total	\$2,792	\$5,055	\$7,607	\$10,068	\$4,944	\$2,103	\$5,692	\$1,134	\$39,395			\$3,300
										Not-To-Exceed Fee	\$39,395	
Travel												
Document Reproduction	\$25	\$50	\$125	\$100	\$100	\$25	\$25	\$50		Including Reimbursables	\$39,895	

* Additional services outside of this fee breakdown are to be billed hourly based on the hourly charge rates listed per employee.

$\$39,895 + \$3,300 = \$43,195$



PROJECT SCHEDULE - EXHIBIT A
DON AVENUE AND THORNTON ROAD SANITARY PUMP STATIONS
 CITY OF STOCKTON, MUNICIPAL UTILITIES DEPARTMENT
 JUNE 13, 2013

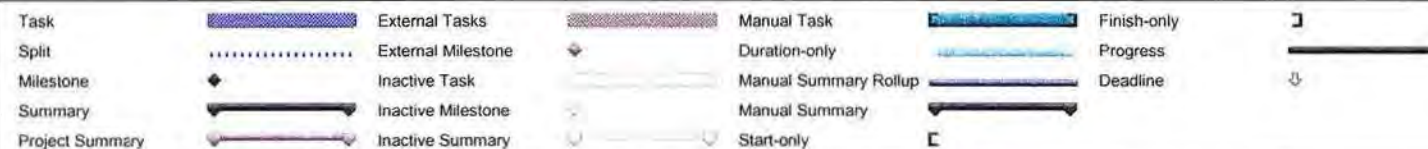
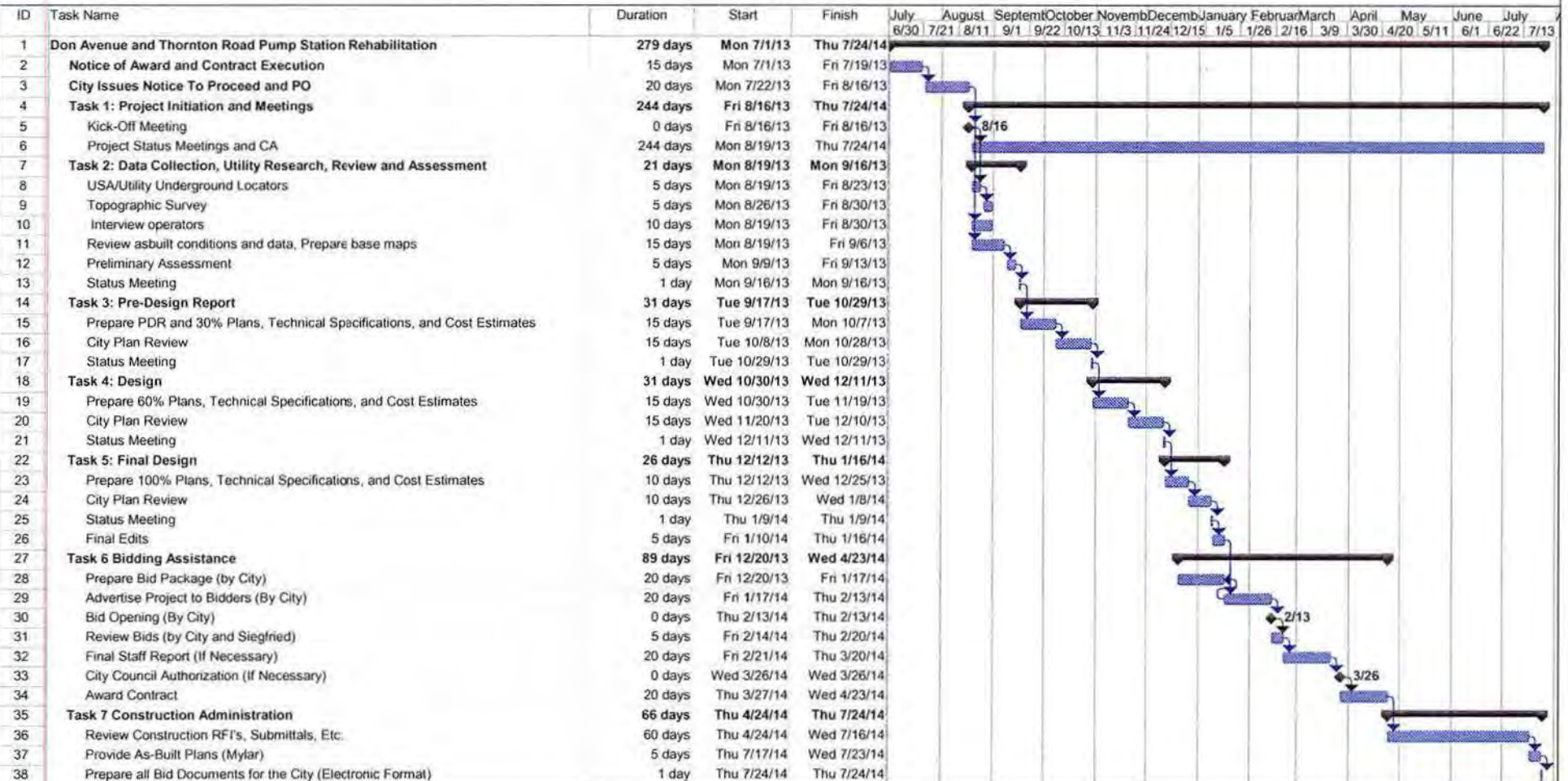


EXHIBIT B

**INSURANCE REQUIREMENTS
DESIGN ENGINEER CONSULTANT SERVICES**

CONSULTANT shall procure and maintain for the duration of the Agreement, insurance against all claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the CONSULTANT, its agents, representatives, volunteers, or employees.

1. **INSURANCE** Throughout the life of this Contract, the Consultant shall pay for and maintain in full force and effect with an insurance company admitted by the California Insurance Commissioner to do business in the State of California and rated not less than "A: VII" in Best Insurance Key Rating Guide, the following policies of insurance:
 - A. **COMMERCIAL (BUSINESS) AUTOMOBILE LIABILITY** insurance, endorsed for "any auto" with combined single limits of liability of not less than \$1,000,000 each occurrence.
 - B. **WORKERS' COMPENSATION** insurance as required under the California Labor Code and Employers Liability Insurance with limits not less than \$1,000,000 per accident/injury/disease. The Workers' Compensation policy shall be endorsed with a waiver of subrogation in favor of the Entity for all work performed by the Consultant, its employees, agents and sub-consultants.
 - C. **COMMERCIAL OR COMPREHENSIVE GENERAL LIABILITY AND MISCELLANEOUS SUPPLEMENTARY INSURANCE;**

FOR **ADDITIONAL** REQUIREMENT(S):

- (i) **COMMERCIAL OR COMPREHENSIVE GENERAL LIABILITY** insurance which shall include Contractual Liability, Products and Completed Operations coverage's, Bodily Injury and Property Damage Liability insurance with combined single limits of not less than \$2,000,000 per occurrence, and if written on an Aggregate basis, \$4,000,000 Aggregate limit. Consultants with excavation and underground risks shall have coverage for and exclusions removed for "x, c, and u."
- (ii) **PROFESSIONAL ERRORS AND OMISSIONS**, Not less than \$1,000,000 per Claim./\$2,000,000 Aggr. (5 yr discovery and reporting tail period coverage). Certificate of Insurance only required.

Deductibles and Self-Insured Retentions must be declared and are subject to approval by the CITY.

The Policy(s) shall also provide the following:

1. The Commercial General Liability insurance shall be written on ISO approved occurrence form with additional insured endorsement naming: *City of Stockton, its Mayor, Council, officers, representatives, agents, employees and volunteers are additional insureds*. ISO form CG 20 37 10 01 edition shall be used as the Additional Insured Endorsement. This form **must be used with** either ISO form CG 20 10 10 01, or CG 20 33 10 01.
2. All insurance required by this Agreement shall be with a company acceptable to the CITY and issued and executed by an admitted insurer authorized to transact insurance business in the

State of California. Unless otherwise specified by this Agreement, all such insurance shall be written on an occurrence basis, or, if the policy is not written on an occurrence basis, such policy with the coverage required herein shall continue in effect for a period of three years following the date CONSULTANT completes its performance of services under this Agreement.

3. For any claims related to products provided under this contract, the Consultant's insurance coverage shall be primary insurance as respects the City of Stockton its officers, agents, and employees. Any coverage maintained by the CITY shall be excess of the Consultant's insurance and shall not contribute with it. Policy shall waive right of recovery (waiver of subrogation) against the CITY.
4. Each insurance policy required by this clause shall have a provision that coverage shall not be cancelled by either party, except after thirty (30) days' prior to written notice by certified mail, return receipt requested, has been given to the CITY. Further, the thirty (30) day notice shall be unrestricted, except for workers' compensation, or non-payment of premium, which shall permit ten (10) days advance notice. The insurer and/or the consultant and/or the consultant's insurance agent shall provide the CITY with notification of any cancellation, major change, modification or reduction in coverage.
5. Regardless of these contract minimum insurance requirements, the Consultant and its insurer shall agree to commit the Consultant's full policy limits and these minimum requirements shall not restrict the Consultant's liability or coverage limit obligations.
6. Coverage shall not extend to any indemnity coverage for the active negligence of the additional insured in any case where an agreement to indemnify the additional insured would be invalid under Subdivision (b) of Section 2782 of the California Civil Code.
7. The Company shall furnish the City of Stockton with the Certificates and Endorsement for all required insurance, prior to the CITY's execution of the Agreement and start of work.
8. Proper address for mailing certificates, endorsements and notices shall be:

City of Stockton
Attention: Risk Services
425 N. El Dorado Street
Stockton, CA 95202
9. Upon notification of receipt by the CITY of a Notice of Cancellation, major change, modification, or reduction in coverage, the Consultant shall immediately file with the CITY a certified copy of the required new or renewal policy and certificates for such policy.

Any variation from the above contract requirements shall only be considered by and be subject to approval by the CITY's Risk Manager (209) 937-8682. Our fax is (209) 937-8833.

If at any time during the life of the Contract or any extension, the Consultant fails to maintain the required insurance in full force and effect, all work under the Contract shall be discontinued immediately. Any failure to maintain the required insurance shall be sufficient cause for the CITY to terminate this Contract.

If the Consultant should subcontract all or any portion of the work to be performed in this contract, the Consultant shall cover the sub-contractor, and/or require each sub-contractor to adhere to all subparagraphs of these Insurance Requirements section. Similarly, any cancellation, lapse, reduction or change of sub-contractor's insurance shall have the same impact as described above.

CONSENT AGENDA



AGENDA ITEM 12.03



Legislation Text

File #: 13-0635, **Version:** 1

APPROVAL OF THE EASTERN SAN JOAQUIN COUNTY GROUNDWATER BASIN AUTHORITY JOINT EXERCISE OF POWERS AGREEMENT

RECOMMENDATION

It is recommended that the City Council approve a motion authorizing the City Manager to execute a Joint Exercise of Powers Agreement of the Eastern San Joaquin County Groundwater Basin Authority through June 30, 2015. The annual membership cost is \$20,000.

Summary

This action allows the City of Stockton to participate as a signatory to the Eastern San Joaquin County Groundwater Basin Authority, previously named the Northeastern San Joaquin County Groundwater Banking Authority, Joint Exercise of Powers Agreement as it pertains to regional water supply planning, studies and project development efforts (Attachment A).

DISCUSSION

Background

On July 29, 1996, by Resolution 96-0396, the City Council authorized the execution of an agreement between the San Joaquin County Flood Control and Water Conservation District (County District), the cities of Stockton and Lodi, Stockton East Water District, Central San Joaquin Water Conservation District, Woodbridge Irrigation District, and North San Joaquin Water Conservation District. This agreement created a public entity under California Government Code Section 6500 et seq. separate and apart from its members known as the East San Joaquin Parties Water Authority, whose purpose was to plan, alone or in conjunction with East Bay Municipal Utility District, and/or Sacramento County public entities, and/or other public entities, projects to meet the water deficiencies of Eastern San Joaquin County. Revisions and extensions to the Agreement require action by the member's governing boards or Councils.

On February 13, 2001, by Resolution 01-0075, the City of Stockton, along with the former members of the East San Joaquin Parties Water Authority, formed a new joint powers entity to meet and confer with East Bay Municipal Utility District and the Sacramento parties to determine if a joint project could be developed that would benefit local interests. The new entity was called the Northeastern San Joaquin County Groundwater Banking Authority (GBA). The agreement was amended in May 2001 to include Central and South Delta Water Agencies.

Since 2001, the GBA has worked collaboratively to complete various water quality investigations, water resources planning documents and project development activities including groundwater management and integrated regional water management plans required by the State of California

Department of Water Resources and is the designated regional entity necessary to apply for State Proposition 84 bond funding.

Over the past year, the Board has been working to complete an amendment to the Joint Powers Agreement, which resulted in a name change, updated objectives and the inclusion of two new regional members; the City of Manteca and the South San Joaquin Irrigation District as well as continuing the work on the Eastern San Joaquin Integrated Regional Water Management Plan Update.

In January 2013, Councilmember Zapien was appointed and represents the City Council with Councilmember Miller as the City's alternate representative. The Joint Powers Agreement over the years has had a number of time extensions with the latest ending in June 2013. The proposed amendment to the Joint Powers Agreement will have a term of two years to June 30, 2015. Future revisions and extensions will be decided by the Board of the Joint Powers Authority.

Present Situation

The Northeastern San Joaquin Groundwater Banking Authority Board of Directors has been meeting regularly to give direction to water agency staff to facilitate the development of locally supported projects that can improve water supply reliability in San Joaquin County and to provide benefits to project participants and San Joaquin County as a whole.

Current Authority activities include:

- Addressing new standards for compliance with the Integrated Water Management Plan guidelines developed by the State of California Department of Water Resources by:
 - Finding ways to make the Authority more competitive for State grant funding
 - Integrating with other Integrated Water Management Regions such as the Mokelumne - Amador - Calaveras and Eastern Contra Costa Regions

The staff recommendation is that it is important for the City of Stockton to remain active in the area of water resource planning for our community. The Eastern San Joaquin County Groundwater Basin Authority will provide a venue for participation, planning, and cooperation among the area's participants.

FINANCIAL SUMMARY

Annual funding for the agency comes from member contributions as well as State and federal monies. The City's annual membership in the Eastern San Joaquin Groundwater Basin Authority will be \$20,000. Sufficient funds are budgeted in Fiscal Year 2013/14 for this expenditure in the following account:

Water Fund account number: 421-4210-572.

There is no impact to the General Fund, or any other restricted fund, from this action.

Attachment A - Joint Exercise of Powers Agreement

A-13-_____

**JOINT EXERCISE OF POWERS AGREEMENT
EASTERN SAN JOAQUIN COUNTY
GROUNDWATER BASIN AUTHORITY**

THIS AGREEMENT is made by and among the San Joaquin County Flood Control and Water Conservation District (“County District”), the City of Stockton (“Stockton”), the City of Lodi (“Lodi”), Stockton-East Water District (“SEWD”), Central San Joaquin Water Conservation District (“Central”), Woodbridge Irrigation District (“Woodbridge”), North San Joaquin Water Conservation District (“NSJWCD”), City of Manteca (Manteca), South San Joaquin Irrigation District (SSJID), Central Delta Water Agency (“Central Delta”) and South Delta Water Agency (“South Delta”) collectively called the “Members”. The Members hereby agree as follows:

**ARTICLE I
GENERAL PROVISIONS**

Section 1.01. Creation of Authority. Pursuant to California Government Code Section 6500 et seq. there is hereby created a public entity to be known as the “Eastern San Joaquin County Groundwater Basin Authority” which shall be a public entity separate and apart from the Members, and shall administer this Agreement.

Section 1.02. Purpose. The purpose of this Agreement is to provide a consensus-based forum of public water interests concerning Eastern San Joaquin County that will work cooperatively with unanimity toward achieving the goal as defined in Section 1.03 and speak on behalf of the Members with one voice.

Section 1.03. Goal. The long-term goal of the Authority is to facilitate the development of locally supported projects that improve water supply reliability and/or improve groundwater level in Eastern San Joaquin County and to provide benefits to project participants and San Joaquin County as a whole. The Authority’s short-term goals are as follows:

(a) To develop and maintain the Eastern San Joaquin County Integrated Regional Water Management Plan (IRWMP).

(b) To facilitate the financing and construction of specific projects contained in the adopted IRWMP.

(c) To apply for grant funding to support the activities of the Authority, its member agencies, and San Joaquin County as a whole

ARTICLE II
POWERS

Section 2.01. Powers. The Authority is hereby authorized, in its own name, to do all acts necessary for the exercise of the foregoing powers including, but not limited to the making and entering into contracts.

Section 2.02. Restrictions on Exercise of Powers. The powers of the Authority shall be exercised in the manner provided in Government Code Section 6509 et seq., and to the restrictions upon the manner of exercising such powers that are imposed upon the County District in the exercise of similar powers.

ARTICLE III
GOVERNING BODY

Section 3.01. Governing Board. The Authority shall be administered by a Board of Directors (“Board”), one appointed by each of the Member entities with a designation of two alternative Directors to serve as a replacement for the appointed Director as needed, to serve at the pleasure of their appointive governing body. The Board shall be called the “Eastern San Joaquin County Groundwater Basin Authority Board”. All voting power of the Authority shall reside in the Board.

- A. The governing body of the Authority shall be a Board of Directors (“Board”) which shall consist of Directors who shall be appointed as follows:
- (1) A representative of the governing body of each Member as appointed by the Member entities.
 - (2) A representative of the following private water purveyors or investor owned utilities, as appointed by the City of Stockton:

California Water Service Company

- B. Prior to the appointment to the Board of the Directors described in subsection (A)(2) above, those represented entities shall submit a recommendation for appointment to the appointing authority. The appointing authority shall give consideration to such recommendations, but shall retain the absolute discretion to appoint any person satisfying the criteria for appointment.
- C. The Members shall appoint one or more persons with the required qualifications to serve as alternate Directors of the Board in the same manner as the Director is appointed by the Members. Any such alternates shall be empowered to cast votes in the absence of the regular Directors

or, in the event of a conflict of interest preventing the regular Director from voting, to vote because of such a conflict of interest.

Section 3.02. Meetings of the Board. The Board shall provide for calling and conducting its regular meetings and special meetings, in accordance with Government Code Section 54950 et seq.

Section 3.03. Minutes. The Secretary shall cause to be kept summary minutes of the meetings of the Board and shall, as soon as possible after each meeting, cause of copy of the summary minutes to be forwarded to each Director and to each of the Members.

Section 3.04. Voting. Each Director shall have one vote.

Section 3.05. Quorum; Required Votes; Approval. A quorum of the Board for the convening of any meeting shall consist of a majority of all Directors, or designated alternative Director. An affirmative vote of at least a majority of all Directors present in a quorum of the Board, or designated alternative Director shall be required for any action of the Board. Directors from member agencies who are delinquent in any past or present monetary contributions will be asked to voluntarily abstain from voting on all matters.

Section 3.06. Bylaws. The Board shall adopt bylaws and governing regulations consistent with this agreement, which may be amended from time to time, for the conduct of its meetings as are necessary for the purposes hereof.

ARTICLE IV OFFICERS AND EMPLOYEES

Section 4.01. Chair, Vice-Chair, and Secretary. The Board member from the County District shall be the Chair and in the Board member's absence the alternate member from County District shall act as Chair. The Board shall elect a Vice-chair from among the Directors. The Vice-chair shall serve at the pleasure of the board, shall perform the duties normal to said office, and

- A. The Chair shall represent the Board as directed by the Board and perform such other duties as may be imposed by said Board;
- B. The Vice-chair shall act and perform all of the Chair's duties in the absence of the Chair; and
- C. The San Joaquin County Director of Public Works shall be the Secretary and provide staff to the Authority. The Secretary shall act on behalf of the Authority and perform such other duties as may be imposed by the Board.
- D. The Chair, Vice-chair, or Secretary or his designee may sign all contracts and agreements as approved by the Board.

Section 4.02. Treasurer and Auditor.

A. The County Treasurer shall be the depository, shall have custody of all the money of the Authority from whatever source, and shall have the duties and obligations of the Treasurer as set forth in Government Code Sections 6505 and 6505.5. The County Treasurer shall be responsible for receiving quarterly reports from the Secretary and verifying the balance of this report with respect to the balance as maintained by the records of the County Auditor.

B. The County Auditor shall have the duties and obligations of the Auditor set forth in Government Code Sections 6505 and 6505.5. The County Auditor shall assure strict accountability of all receipts and disbursements of the Authority and shall make arrangements with a certified public accountant or firm of certified public accountants for the annual audit of accounts and records of the Authority.

Section 4.03. Officers in Charge of Records; Funds; and Accounts. Pursuant to Government Code Section 6505.1, the County Treasurer shall have charge of, handle and have access to all accounts, funds and money of the Authority and all records of the Authority relating thereto; and the Secretary shall have charge of, handle and have access to all other records of the Authority.

Section 4.04. Employees and Consultants. The Board may make recommendations to the County District for the employment of employees or consultants to provide services to the Authority to accomplish the purposes of the Authority. The County District may employ employees and consultants and may execute contracts, supervise and direct, and provide payment for such employees and consultants.

ARTICLE V
ACCOUNTS AND REPORTS: FUNDS

Section 5.01. Accounts and Reports. The County Auditor shall establish and maintain such funds and accounts as may be required by good accounting practice. The books and records of the Authority shall be open to inspection at all reasonable times by the public and representatives of the Members. The Auditor, within 120 days after the close of each Fiscal Year, shall give a complete written report of all financial activities for such Fiscal Year to the Members.

Section 5.02. Funds. The County Treasurer shall receive, have the custody of and disburse Authority funds on warrants drawn by the County Auditor as nearly as possible in accordance with generally accepted accounting practices, shall make the disbursements required by this Agreement, or to carry out any of the provisions or purposes of this Agreement.

Section 5.03. Annual Budget. The Board shall adopt a budget for the Authority. The County District shall provide funds as set forth in the adopted budget which shall be limited to planning activities when using Zone 2 funds. Other member agencies shall make contributions

which shall be included in the budget adopted by the Board. A Member's affirmative vote to approve a budget does not constitute consent to finance or otherwise participate in any project or projects within that budget.

Section 5.04. Intention for Reimbursement for Expenditures From Bond Proceeds. It is the intention of the Members that the advancement of monies by any Members for the expenses of the operational needs of the Authority may be reimbursed from the proceeds of bonds, if issued, for the water development projects undertaken by the Authority or by its successor organization, by vote of the Board.

ARTICLE VI ASSOCIATE MEMBERSHIP

Section 6.01. The San Joaquin County Farm Bureau may be an associate member of the Authority with a representative serving as an associate member on the Board of the Authority. Associate members shall be entitled to participate in the meetings and discussions of the Board but associate members shall not have the power to vote on any action to be taken by the Authority or to become an officer or Director of the Authority.

ARTICLE VII CONTEMPLATED PROJECT

It is contemplated that some or all of the Members will enter into subsequent agreements for the construction, operation, and maintenance of a project. Participation in this Agreement is not a firm commitment by any individual Member to enter into a project. This Agreement shall not prohibit independent projects by Members.

ARTICLE VIII TERM; WITHDRAWAL; TERMINATION

Section 7.01. Term. The Members hereby agree to establish the Eastern San Joaquin County Groundwater Basin Authority, through June 30, 2015. The term may be automatically extended to coincide with the fulfillment of any outstanding agreements or contracts. The Board may also take action to extend the term of this agreement.

Section 7.02. Withdrawal of Member. A Member may terminate its Membership in the Authority at any time upon giving written notice of the withdrawal to the Authority.

Section 7.03. Disposition of Assets. Upon termination of this Agreement, all remaining net assets of the Authority, both real and personal, shall be transferred to the County District.

ARTICLE IX MISCELLANEOUS PROVISIONS

Section 8.01. Amendments. This Agreement may be amended by the Board at any time, or from time to time.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed on the day and year set opposite the name of the parties.

ATTEST: MIMI DUZENSKI
Clerk of the Board of Supervisors
of the San Joaquin County Flood
Control and Water Conservation District

By _____(SEAL)
Deputy Clerk

SAN JOAQUIN COUNTY FLOOD
CONTROL AND WATER CONSERVATION
DISTRICT

By _____
KEN VOGEL, Chairman
Board of Supervisors
“COUNTY DISTRICT”

ATTEST:

CLERK

CITY OF STOCKTON, a municipal
corporation of the State of California

By: _____
Title: _____
“STOCKTON”

ATTEST:

CLERK

CITY OF LODI, a municipal corporation
of the State of California

By: _____
Title _____
“LODI”

ATTEST:

CLERK

STOCKTON-EAST WATER DISTRICT

By: _____
Title: _____

ATTEST:

“SEWD”
CENTRAL SAN JOAQUIN WATER
CONSERVATION DISTRICT

CLERK

By : _____

Title: _____

“CENTRAL”

ATTEST:

WOODBIDGE IRRIGATION DISTRICT

CLERK

By: _____

Title: _____

“WOODBIDGE”

ATTEST:

NORTH SAN JOAQUIN WATER
CONSERVATION DISTRICT

CLERK

By: _____

Title: _____

“NSJWCD”

ATTEST:

CITY OF MANTECA, a municipal
corporation of the State of California

CLERK

By: _____

Title: _____

“MANTECA”

ATTEST:

SOUTH SAN JOAQUIN
IRRIGATION DISTRICT

CLERK

By: _____

Title: _____

“SSJID”

ATTEST:

CENTRAL DELTA WATER AGENCY

CLERK

By: _____

Title: _____

“CENTRAL DELTA”

ATTEST:

SOUTH DELTA WATER AGENCY

CLERK

By: _____

Title: _____

“SOUTH DELTA”

APPROVED AS TO FORM:

By _____
LAWRENCE P. MEYERS
Deputy County Counsel

NEW BUSINESS



AGENDA ITEM 15.1



Legislation Text

File #: 13-0618, Version: 1

CONVERSION TO A FIXED RATE OF INTEREST ON THE \$55,000,000 STOCKTON PUBLIC FINANCING AUTHORITY VARIABLE RATE DEMAND WATER REVENUE BONDS, SERIES 2010A (DELTA WATER SUPPLY PROJECT) (THE "BONDS")

RECOMMENDATION

Adopt Resolutions of the City of Stockton and the Stockton Public Financing Authority authorizing the conversion of the Bonds from a variable rate of interest to a fixed rate of interest through the final term of the Bonds (October 1, 2040) at a true fixed interest cost not to exceed 6.75%, approving all documents and directing certain actions in connection therewith:

Resolution of the City of Stockton:

1. Authorizing the conversion of the interest rate period and amendment of certain provisions of the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project);
2. Approving the form of and authorizing the execution and delivery of a First Supplemental Installment Purchase Contract¹,
3. Approving the Bond Purchase Contract²,
4. Approving the Preliminary Remarketing Memorandum³
5. Approving the Continuing Disclosure Certificate⁴; and
6. Authorizing and approving actions necessary to carry out the conversion and remarketing of the bonds.

Resolution of the Stockton Public Financing Authority:

1. Authorizing the conversion of the interest rate period and amendment of certain provisions of the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project);
2. Approving the form of and authorizing the execution and delivery of a First Supplemental Indenture,
3. Approving the First Supplemental Installment Purchase Contract,
4. Approving the Bond Purchase Contract,
5. Approving a Preliminary Remarketing Memorandum Relating thereto; and
6. Authorizing and approving actions necessary to carry out the conversion and remarketing of the bonds.

¹ A first supplemental Installment Purchase Contract is a first amendment to the original installment purchase contract executed with the original issuance of the Series 2010A bonds. The original installment purchase contract is between the City and the Stockton Public Finance Authority and provides for installment payments to be made by the City from the pledged Water Fund revenues to the Authority for debt service.

² The Bond Purchase Contract provides the terms and conditions under which the remarketing agent will purchase the Series 2010A Bonds and sell them to new investors upon the conversion to fixed rates.

³ The preliminary remarketing memorandum is a document used by the financial community to make investment decisions. It describes the essential terms of the bonds, including whether and on what terms the bonds can be redeemed prior to maturity, the sources pledged to repay the bonds, and the issuer's covenants for the benefit of investors. It also contains information about the City's water system including financial and operating data.

⁴ A Continuing Disclosure Certificate is required under Securities and Exchange Commission Rule 15c2-12 ("Rule") and is a written agreement issued in connection with the issuance of bonds requiring the City to provide annual reports containing certain financial or operating data relating to the City's water system and to provide notice of certain events required by the Rule.

Summary

The Delta Water Supply Project Bonds (“The Bonds”) issued in 2010, are backed by a Letter of Credit (“LOC”) issued by Union Bank (“Bank”) that expires on October 18, 2013. The purpose of the LOC is to enhance the credit of the bond issue. The Bonds are variable rate and are remarketed, or bought and sold, on a weekly basis. The LOC also provides the liquidity, or cash, necessary to purchase the bonds from investors if some or all of the bonds are not able to be remarketed each week. Without an LOC the total outstanding principal of \$55 million would become immediately due and payable by the water fund.

When the City entered the AB 506 mediation process in February 2012 and defaulted on certain General Fund obligations, even though these are Water Fund obligations this gave the right for the Bank to declare an Event of Default under the Reimbursement Agreement. Debt service on the bonds is continuing to be paid, and the utility funds used to service the debt remain solvent. Declaration of an Event of Default by the Bank would cause an immediate tender of the Bonds and principal acceleration with all \$55 million due within one year. The Bank wrote a letter reserving all rights and privileges under the documents but did not declare an Event of Default. We have been in constant communication with the Bank and they have been extremely reasonable with us. This helped to calm the market and allowed the Bonds to continue to be remarketed successfully.

The Bank has made an offer to extend the LOC for a period up to three years. However, the terms of that renewal require the City to pay down the Bonds in an amount equal to \$5 million for each year of LOC extension. This will cost the Water Fund anywhere from \$5-\$15 million. Though the funding is available, it is currently slated to fund other capital projects of the system. Additionally, we will have the face the LOC renewal in another three years.

The City’s Series 2010A Water Bonds are currently in a variable interest rate mode. While the current variable interest rate is very low and quite attractive, it can increase due to market conditions. Also, in order to stay in variable rate mode, the City must provide a letter of credit to secure the bonds. The current letter of credit expires on October 18, 2013. If nothing is done and the current letter of credit is not renewed, the Bonds will be purchased by Union Bank as the provider of the current letter of credit and will increase to a very high penalty rate of interest, and could be declared immediately due and payable. Obviously, that would be a totally unacceptable result. The rating agencies have penalized the Stockton water enterprise in part because of the possibility that the letter of credit would be withdrawn and the bonds would be declared immediately due and payable.

The City essentially faces two choices in terms of dealing with the Series 2010 A Bonds (1) extend the letter of credit with Union Bank for up to three years (No other banks will provide a letter of credit for the bonds at this time) or (2) remarket the Bonds at a fixed interest rate to their final maturity in 2041. There are pros and cons to each approach, outlined below:

Extension of Variable Rate Mode and Letter of Credit:

The advantages of an extension of the variable rate primarily are that the variable rates would stay in place for the extension. Currently the variable rate is very low, but the rates can change on a weekly basis and there is no guarantee that they would not increase over time.

In terms of disadvantages, if a fixed rate is not pursued, the City will have to obtain an extension of the Union Bank letter of credit under the terms previously mentioned which would reduce the Water Fund Balance to an unacceptable low level. Also, we will face the LOC renewal issue in 3 years.

Fixed Rate Conversion (Staff Recommendation):

The advantage of a fixed rate conversion is that the risk of renewal of the letter of credit in the future, as well as the risk of interest rates and bank fees going up over time, is eliminated. Once a fixed rate conversion is done, the payments on the bonds are locked in to maturity and the City will not have to revisit this issue. Staff has analyzed the impact of a fixed rate conversion at the maximum rate authorized in the proposed resolution of 6.75%, and believes that this rate can be supported by the water enterprise based on existing water rates without any further increases. While we would hope that the actual rate for a conversion would be lower than the maximum authorized rate, we will not know what the final rate will be until the bonds are marketed and the remarketing agent is able to secure investors for the fixed rate bonds. As of July 29 the estimated market rate would be 6.26% but that fluctuates on a daily basis.

Another advantage of the fixed rate conversion is that, by eliminating the letter of credit renewal risk, we can make the case to the rating agencies that the City has eliminated the risk that the bonds would be accelerated due to inability to maintain the letter of credit. While there are no guarantees this would result in an immediate upgrade of the rating, this would help the City in making that argument, and in the long term will help the City if it needs to access the capital markets again for future water system requirements.

The disadvantage of a fixed rate conversion is that the interest rate may end up being higher than the alternative of staying with a variable rate and converting later. This is further analyzed later in this report. It is impossible to predict in the future what interest rates will be.

In summary, although the recommended fixed rate conversion may result in the City having to accept a higher interest rate on the Bonds than it would like, it does provide certainty with respect to these issues, and appears to be affordable given the City's current rate structure. Staying with the variable rate can provide additional cost savings, at least in the short run, but results in significant and unpredictable risks continuing to be borne by the water enterprise both from a financial and ratings perspective.

Approval of the resolutions authorizes the conversion of the existing water bonds to a fixed rate of no more than 6.75%. The interest rate will be determined based on the market at the time the bonds are sold. The rate could be lower, but this report examines the impacts of a range of interest. Should the market interest be at the maximum, it will cause an increase in annual debt service of \$1,787,500 when comparing the current variable rate of 3.55% "all-in". Because of the volatility in variable rates, a more accurate comparison would be to an average historical variable rate of 4.56% ("all-in") over the last 20 years or 5.49% ("all-in") over the last 30 years. In this case, should the market fixed rate of interest be at the maximum, the increased debt service would be \$1,164,020.

DISCUSSION

Background

The City Council, acting in the capacity of the Stockton Public Financing Authority previously issued \$55 million of Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the "Bonds") pursuant to an indenture, dated as of October 1, 2010 (the "Indenture"). An indenture is the agreement that specifies the terms of the bond issuance. The indenture is by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"), to provide funds to the City for the acquisition, construction, installation and improvement of its Delta Water Supply Project. Included in the Indenture, issued in connection with the debt, was a provision that allows for the City to convert the outstanding variable rate debt to a fixed rate. This would be accomplished by remarketing, or essentially refinancing, the bonds to investors at fixed rates and using the funds to pay off the current variable rate investors.

When the 2010A Bonds were issued, the City also entered into an Irrevocable Direct Pay Letter of Credit ("LOC") issued by Union Bank ("Bank") under a Reimbursement Agreement. The maximum amount available under the LOC to support the Bonds is \$55,958,357 and the LOC expires on October 18, 2013. A LOC is a commitment by the Bank to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment letter. A LOC is often used as credit enhancement for the Bonds and also provides liquidity. Because the bonds are variable rate they are bought and sold weekly. Each week the interest rate paid on the bonds is based on the then market interest rates. When the bonds are remarketed (sold and purchased by new investors), those proceeds are used to pay the prior investors for their investment. If any portion of the bonds are not purchased when remarketed, the letter of credit provides the funding to purchase the bonds. These would become "bank owned" which has not happened for these bonds.

Present Situation

When the City entered the AB 506 mediation process in February 2012 and ultimately filed for protection under chapter 9 in June 2012, the rating agencies (Moody's, S&P and Fitch) raised concerns about the City and the Water Bonds. Their concerns were threefold: (1) the declaration of bankruptcy is considered an event of default as defined in the Bond indenture, even though the bankruptcy did not impact the water fund or other restricted funds and the debt service was and is being paid, (2) this event of default allows the Bank to cancel the letter of credit which would make the outstanding principal of \$55 million immediately due and payable, and (3) the upcoming expiration date of the LOC (October 18, 2013). These concerns are explained in more detail in the following discussion.

When the City entered AB 506, it took action to notice and disclose to its creditors in writing of its inability to make certain payments on several General Fund obligations. Although the City's fiscal crisis was in the General Fund and did not have an impact on the ability to pay the debt service on these Bonds, under the default provisions in the Reimbursement Agreement for the Water Revenue Bonds, the filing for bankruptcy by the City and the admission of the inability to pay its debts as they come due (even if it is restricted to the General Fund), gives the Bank a right to declare an Event of Default. Declaration of an Event of Default by the Bank would cause an immediate tender of the Bonds and principal acceleration with all \$55 million due within one year.

To alleviate investor concerns, the Bank, in a letter to the City dated March 19, 2012 (Attachment F), stated that the Bank would not make any present demand on the City for payment nor did it intend to formally declare an Event of Default under the Reimbursement Agreement and would not exercise any of its rights or remedies. However, the Bank indicated it continues to reserve its rights, is not waiving any amounts due and is not waiving its rights at any future date.

In response to these concerns, the rating agencies, between the period of February and June 2012, took swift action to downgrade the water system bonds to below investment grade (S&P to BB+ from A+, Fitch to BB+ from AA-, Moody's to Ba3 from A3).

The City has evaluated its options under the Indenture, including the ability to convert to a fixed interest rate. The following risks associated with the 2010A Bonds and the Reimbursement Agreement were also evaluated:

Potential for Acceleration of \$55.0 Million of 2010A Variable Rate Demand Water Revenue Bonds

Though Union Bank has been working with the City and has formally stated that it has not declared an Event of Default, it has reserved its rights to do so which creates an uncertainty the City must manage. In the event the Bank were to act upon their rights and formally declare an Event of Default, the total principal outstanding on the 2010A Bonds in the amount of \$55.0 million would become immediately due and payable by the Water Fund. The Bank's actions until now do not appear to indicate this would occur and their willingness to indicate their actions in writing to assist the City has shown their support.

The Water Utility Fund's current assets as of June 30, 2011 (audited) was \$47.4 million, as of June 30, 2012 (unaudited) was \$41.3 million, and as of June 30, 2013 (unaudited) was \$44.7 million. Current assets consist of unrestricted cash and investments, net of accounts receivable, and amounts due from other governments. These dollars reflect available resources that can be used in the current period, which is deemed to be the next twelve months. Risk exists if the Bank were to declare an Event of Default and demand full payment there would simply not be sufficient liquid assets to meet the total outstanding debt obligation of \$55.0 million.

Renewal Risk Associated with the Letter of Credit

The LOC with Union Bank is due to expire on October 18, 2013. Again, if the LOC is not renewed or replaced, the entire outstanding principal on the Bonds in the amount of \$55 million would be immediately due and payable by the Water Fund. In anticipation of the expiration, we have been working diligently with the Bank to identify a viable renewal option. The City received a term sheet from the Bank with an offer to extend the LOC for a period from one to three years. In exchange for extending the LOC, the Bank is requesting the City Water Utility System buy down the LOC by \$5 million for each year of the extension, up to a total of three years or \$15.0 million. This would require the use of cash for each year of the buy down.

While the Water Utility System has these funds available, there are several large capital projects contemplated for the water system, including a Chloramine project (\$12.5 million) which is already underway (\$7.5 million committed). The alternative to preserving cash would be to seek alternate funding or financing. Projects budgeted for the Water Utility System in the 2013-14 Capital

Improvement Program, as adopted by City Council in June 2013, total \$19.5 million over the next five 5 years not including funds already appropriated to existing projects in prior years for which funding has not been expended. Anticipated cash needs over the next five years for all Capital Improvement Projects totals \$29.6M, including \$18M of critical projects. Some projects could be delayed in order to fund the LOC extension but at a cost. This is discussed later in this report.

In response, the rating agencies expressed concern that acceleration of the debt would cause a drain on the system resources (depleting cash reserves) and cause the system to fail to meet all of its obligations. This is the primary reason they have downgraded the bonds to below investment grade and put the system on “negative watch”.

Variable Interest Rate Risk

The 2010A Bonds are variable interest rate bonds and bear interest at a “weekly rate” based on market conditions. Interest is paid monthly based on the reset of the interest rate each week. The maximum interest rate allowed on the bonds is 12% per annum. The Bonds were remarketed the week of July 24, 2013 at 0.70%. When you add LOC fees (2.75%) and remarketing fees (0.10%) the total current rate for that week is 3.55%.

While the market has experienced “all-time” historic low interest rates over the last year and several months, these rates are not expected to continue. At some point, variable interest rates should become more normalized as the U.S. economy recovers from the Great Recession and is likely to move closer to certain averages over various historical time horizons. Below are the average interest rates over a 10-, 20-, and 30-year period based on the Securities Industry and Financial Markets Association (“SIFMA”) 7-day Index. The 7-day SIFMA indexes approximately 600 variable rate bond issues and is reflective of trades in the roughly \$300 billion short-term tax-exempt bond market.

Measurement Period	Average Variable Interest Rate
30-Years	3.24%
20-Years	2.31%
10-Years	1.51%

Adding the LOC and remarketing fees above to the average of the variable interest rates (“all-in rate”) under various assumed credit ratings, anticipated variable interest rates for the Bonds could range from as low as 2.81% to a high of 6.24% as follows:

Assumed Rating	“All-In” 30-Yr Avg.	“All-In” 20-Yr Avg.	“All-In” 10-Yr Avg.
BB+	6.24%	5.31%	4.51%
BBB	5.49%	4.56%	3.76%
A	4.54%	3.61%	2.81%

In light of the above risks, internal City staff and financial advisors have developed several options to address the liquidity and rating concerns as part of the longer term strategy to recover investment grade ratings for the Water Fund. Those options for the City Council's consideration are as follows:

Option 1 -Extension of the Letter of Credit

Pursuant to an offer received from Union Bank, the City can pay \$5 million for each year to extend the letter of credit up to \$15 million total for three additional years. These funds would be used to pay off an equal amount of principal on the outstanding bonds.

As a result of the early retirement of the portion of the outstanding 2010A bonds under this agreement, the total annual debt service would also be reduced. The annual debt service impacts of reducing the bonds by the contribution amount are as follows:

Assumed Interest Rate	Contribution Amount	Debt Service Reduction
3.55%	\$5,000,000	(\$177,500)
3.55%	\$10,000,000	(\$355,000)
3.55%	\$15,000,000	(\$532,500)

The City Council established policies several years ago to maintain reserves at or above 6-months (or 50%) of operations and maintenance expenditures. This would equate to maintaining a minimum \$13.0 million for fiscal year 2013-14 in the Water Fund. If the City Council decides to extend the LOC for a period of three years, this would require the use of \$15.0 million in Water Fund cash. The June 30, 2013 unrestricted cash balance (unaudited) is estimated to be approximately \$37.0 million. After extending the LOC at \$15 million and funding the reserve of \$13 million, this leaves only \$9 million for capital projects. If the City were not to postpone capital projects the reserves would fall well below the Council policy to as low as 6% in FY 15-16. This would require the City to postpone capital projects in order to maintain a safe level of reserves. In addition, the City would continue to have variable interest rate risk.

To extend the LOC for three years, at a cost of \$15 million, would leave only \$9M to fully fund \$29.6M of planned capital projects over the next five years. Of those, \$18M are critical or unavoidable. While the capital shortfall of \$20M would be disruptive to the safe and efficient operation of the utility, the shortfall for critical projects \$(9M) threatens the long term stability of the utility. This scenario poses greater risks which, if realized, would result in a long-term cost far greater than the short-term savings. One example is the delay of membrane replacements which undermines the integrity of the system and could take the treatment plant offline. Another example is the emergency underground pipe repair/replacement. Historical data as recent as this year demonstrates the high likelihood of costly and unexpected repairs. Earlier this year a 48" pipe began leaking and became a potential health and safety issue if not immediately repaired. The absence of an emergency fund would increase the cost and the start time for making similar repairs in the future. Should the City extend the LOC for one year at a cost of \$5 million, we could fund all of the critical projects. Some less critical projects would have to be postponed such as the Water Telemetry Project. In this case, the efficiencies to the communication between treatment and distribution staff created by this project would be delayed. At the end of the year, we would then be faced again with the same issues and risks as today, whether to extend the LOC or convert to fixed.

Benefits and Risks of Extending LOC

Benefits	Risks
Reduces total debt service by paying down debt	Reduces unrestricted cash of the water fund by \$5 million to \$15 million (depending on the number of years the LOC is extended) reaching minimum level of reserves
Market benefit of eliminating Bank renewal risk for another one to three years	Continued variable interest rate risk
Alleviates, but does not eliminate, liquidity issue since the Bank could still declare an Event of Default	Future LOC renewal risk
	Future risk of Bank declaration of an Event of Default

Option 2 - Recommended Option - Conversion of \$55.0 Million in Variable Rate Bonds to Fixed Rate Bonds

Convert all outstanding Series 2010A Bonds in the amount of \$55.0 million to a fixed interest rate for the term of the Bonds (October 1, 2040). The fixed interest rates are dependent upon the market conditions and are subject to change until the closing date of the transaction.

The hypothetical change in annual debt service from the conversion at various assumed fixed interest rates as compared to the current “all-in” variable rate of 3.55% and the historical variable rate of 4.56% over a 20--year term for a BBB rated obligation is provided below:

Principal Amount of Bonds Converted	Assumed Fixed Interest Rate	Fixed Rate Change in Annual Debt Service	
		To Current Variable Rate “All-In” (3.55%)	To 20-yr Historical Average Variable Rate “All-In” (4.56%)
\$55,000,000	6.75%	\$1,787,500	\$1,164,020
\$55,000,000	6.50%	\$1,622,500	\$1,067,000
\$55,000,000	6.26%	\$1,518,000	\$912,587
\$55,000,000	6.00%	\$1,347,500	\$792,000
\$55,000,000	5.50%	\$1,072,500	\$517,000

In the most likely scenario, at a rate of 6.26%, the debt service would increase by \$912,587 as compared to the historical 20-year average of SIFMA plus LOC and remarketing fees and by \$1,518,000 per year as compared to the current “all-in” variable rate of 3.55%. If the interest were to be as high as 6.75%, the debt service would increase by \$1,164,020 as compared to the historical 20-year average of SIFMA plus LOC and remarketing fees and by \$1,787,500 per year as compared to the current “all-in” variable rate of 3.55%. The additional costs of debt service will, however, mitigate the uncertainty associated with the acceleration provision of the Reimbursement Agreement, eliminate LOC renewal risk, and reduce the interest rate risk from a variable rate bond that can rise to a high of 12.0%.

While we know that converting to a fixed interest rate will certainly exceed the current “all-in” rate (3.55%) and the historical 20-year average of SIFMA, it is very possible that the fixed rate will be less than future variable rates when you look back after maturity of the Bonds. There is no way to predict future variable rates other than to look at historical time horizons and assuming they normalize to historical averages after the Great Recession.

While these are hypothetical interest rate scenarios provided for decision making among the options available, the Financing Team has prepared a pro-forma for the Water Utility System (Attachment G) that forecasts it can withstand a fixed rate of 6.00% or greater.

Water Fund Pro-formas

Attachment G has two pro-forma scenarios, one with an interest cost of 6.26% (current rate as of July 29, 2013) and one with a rate of 6.75% (the not-to-exceed amount proposed in the resolution). The Water Fund pro-forma projects the system revenues, operation and maintenance "O&M" expenses, capital outlay, and debt service used to operate the Water Fund.

There are several measures of financial performance that are significant to the issuance of debt with the most important being sufficient net revenues available to cover debt service. Total net system revenues available for debt service are shown on line 22 of Attachment G. The balance of net system revenues after payment of operations and maintenance total \$19.0 million in 2013-14 and grow to \$24.3 million by 2019-20.

The debt service coverage (DSC) ratio is the measure of an agency’s ability to have sufficient resources to pay its debt. This is a ratio of annual net system revenues to debt service. Bond covenants typically require a specific level of DSC to be maintained by the borrower. A ratio of 1.00 means that annual net system revenues are equal to annual debt service. For the City’s Water Utility System, the covenant is set at 1.15 for all bonds, or net system revenues must be at least 115% of annual debt service.

The City Water Utility System has both senior and subordinate bonds as shown in the pro-forma. The classification as senior and subordinate is based on the bondholder’s rights and priorities to each other. The senior obligations (line 27) include a small Drought Loan, the Series 2002A, Series 2005A and the proposed remarketed Series 2010A bonds. The subordinate obligations of the system include the tax-exempt Series 2009A and the Taxable Build America Bonds, Series 2009B (line 36). The pro-forma forecasts that the City, after the remarketing of the Series 2010A Bonds, is estimated to exceed the 1.15% DSC as required by bond covenants. The minimum DRC in the lower interest rate scenario (6.26%) is 1.27 and the minimum in the higher interest rate scenario (6.75%) is 1.26.

The Water Fund has by City Council Policy a requirement to maintain reserve levels at or near the minimum 6-months of O&M or 50%. After the conversion, the debt reserve levels decline to approximately 40% by FY 2019 and begin to rise by the following year at the current market interest rate (line 51). These debt reserve levels decline to 35% in FY 2019 and begin to rise the following year at the maximum interest rate. Although this falls below the Council Policy, the industry standard is to maintain a 25% to 50% reserve. These estimated reserve levels are within the standard.

The increase in annual debt service after conversion to a fixed rate (line 26: beginning in FY 13-14 with full implementation in FY 14-15) causes a higher utilization of the Rate Stabilization Fund (line 47), which is a separate fund dedicated for debt service coverage. Cash reserves are set aside in the rate stabilization fund in order for the Water Utility System to smooth rate charges to customers while continuing to make its debt service payments. At a low the fund is expected to reach \$4.7 million. Both pro-forma scenarios show the rate stabilization fund rebounding quickly after this increased debt service. This rebound of the fund is a key indication of the health of the fund, as this rebound occurs without any increases in customer water rates. At this funding level the Rate Stabilization fund will maintain adequate funding to meet the purpose of the fund.

Finally, while the fund balance (line 48) of the Water System shows a decline this is primarily due to large capital outlays planned in the capital improvement program as described above. These balances also begin to rebound in the projection period.

These financial indicators show that the impact of a fixed rate conversion at the maximum rate authorized in the proposed resolution. Even the highest rate can be supported by the water enterprise based on existing water rates without any further increases.

Credit Rating

Prior to the marketing of the fixed rate, the Financing Team will approach the rating agencies, S&P and Fitch, with evidence of the Water Utility System's current and forecasted financial performance demonstrating that it is appropriate to assign a rating upgrade to at or above a minimum investment grade level of BBB- (from the current below investment grade level of BB+). The rating schedule goes from AAA to down to C and below. A plus or minus is used to denote a slight modification, up or down, within each category. See the rating scale table below:

Credit Rating Scale

AAA	Highest credit quality
AA	Very high credit quality
A	High credit quality
BBB	Good credit quality
BB	Speculative
B	Highly speculative
CCC	Substantial credit risk
CC	Very high levels of credit risk
C	Exceptionally high levels of credit risk

Benefits and Risks of Converting to a Fixed Rate

Should the City exercise this option of refinancing, after ten years, these fixed-rate bonds will be able to be refinanced should market conditions and interest rates permit potential savings. The bonds will have a ten year call protection which is standard for fixed rate bonds. This means the bonds cannot be purchased by the City for ten years without paying a higher interest rate. Any move away from this standard will result in a higher interest cost as investors will demand more risk premium in the event their bonds are called earlier than ten years. No jurisdiction in bankruptcy has entered the market for

publicly offered bonds. It is fully anticipated the City has market access but the level of demand will be driven by market conditions, bond ratings and intensive marketing efforts that will be critical for a successful sale.

Benefits and Risks of Converting to a Fixed Rate

Benefits	Risks
Signals that City has continued access to capital markets	Increases total annual debt service as compared to current variable rate debt or by the indices described earlier from \$912,000 to a maximum of \$1,787,000 per year. See the table above for potential range of debt service.
Converting to fixed rates for the entire term of the Bonds will lock the borrowing into a fixed payment and gives the City ultimate payment certainty	Limits flexibility to refinance or pay down debt during call protection period (bonds will provide bondholders with 10-years of call protection as is standard for fixed rate bonds) The old bonds are "called" or purchased and replaced with new bonds when refinanced.
Mitigates the risk of the Bank declaring an Event of Default and accelerating the debt	General risks associated with going to market to sell bonds when bankrupt
Liquidity issues are remediated if principal acceleration is avoided	Interest rates could decline again in the future
Bonds can still be refunded in the future after the first 10-years (call provision)	Water fund reserves are projected to drop below the City Council policy target of 6 months of O&M but still remain at adequate industry standard levels during the pro forma period.

City staff and the financial advisors recommend this option (versus the alternate option of extending the letter of credit) if the true interest costs on a fixed basis are not to exceed 6.75%, for the following reasons:

1. Preserves short-term liquidity of the Water Fund by avoiding having to buy down \$15 million in bonds over the next three years.
2. Removes the uncertainty of the potential acceleration of the debt by Union Bank
3. Puts control of the timing of debt payments back in our hands
4. Removes the volatility of rising variable interest rates
5. Removes the letter of credit renewal risk that will continue into the future

However, in order to mitigate the various risks discussed above, there is a cost associated with the transaction. At a 6.26% current market interest rate and when compared to average historical variable interest rates, the incremental difference is approximately \$913,000 per year in increased debt service over the remaining term of the bonds (Attachment H). At a 6.75% interest rate the incremental difference is approximately \$1,164,020 per year in increased debt service over the remaining term of the bonds. The costs of issuance are also expected to be approximately \$770,000 which is included in the debt service (Attachment I). However, this increase in costs provides the City control and certainty over its Water Fund finances.

Rating Agencies

The City has been very public about the “firewall” that exists between the General Fund and the restricted funds of the City, of which the utility funds makes up the largest share. Unfortunately, other public agencies outside of the City of Stockton in the State of California have spent these funds, sometimes over a period of years, for General Fund purposes in direct violation of the Debt Limit in the State Constitution. This has caused serious concerns and negative press even for agencies like the City that are managing their funds appropriately.

There is very little the City of Stockton can do about the rating agencies reported concerns regarding the “firewall” or the willingness to pay arguments. The City can continue to monitor its Water Fund performance, maintain rates and charges sufficient to operate the system, meet or exceed all bondholder covenants, make all debt service payments in full and on time, and maintain operating and maintenance reserves at or above established policy levels. The City has demonstrated this ability before and after filing for bankruptcy and will continue these best practices.

The Preliminary Remarketing Memorandum

Attached to this staff report is a Preliminary Remarketing Memorandum. The Preliminary Remarketing Memorandum is used to disclose information about the Series 2010A Bonds, the security for the Series 2010A Bonds and the City’s Water Utility System that is material to investors. In advance of the sale of the Series 2010A Bonds, this preliminary form of the Remarketing Memorandum will be distributed to investors interested in purchasing the Series 2010A Bonds. Bonds are actually sold/remarketed by the issuer to potential purchasers through these preliminary offering documents. Although there are blanks in the document, e.g. principal amount per maturity schedule (Table 23), this is not a “draft” and in fact, under SEC Rule 15c2-12, the preliminary offering document (referred to as “deemed final” in the Rule), may exclude only the information stated in the Rule. Except for the information permitted to be excluded under the Rule, the preliminary statement must be “final” in all respects. The information permitted to be excluded under the Rule is: the offering price(s), the interest rate(s), the selling compensation, the aggregate principal amount, the principal amount per maturity, delivery dates, ratings and certain other terms of the bonds which are dependent upon such matters. This information varies based on market interest rates at the time the bonds are sold.

This preliminary form of the Remarketing Agreement will be distributed to investors with a number of blanks for those permitted exclusions that will not be known until the sale of the Series 2010A Bonds. All of this information will be determined when the Series 2010A Bonds have been sold to investors and will be disclosed in the final Remarketing Memorandum that will be prepared and distributed to investors between the sale of the Series 2010A Bonds and the closing of the Series 2010A Bonds (typically a two week period).

Financing Team

Along with members of City staff, the financing team includes Orrick, Herrington & Sutcliffe LLP as Bond and Disclosure Counsel, Citigroup Global Markets as Remarketing Agent, Del Rio Advisors, LLC as Interim Debt Manager/Financial Advisor and Wells Fargo Bank National Association as Trustee/Paying Agent.

Financing Schedule

Should the City Council approve the conversion, the Financing Team has a very tight time schedule in which to close the transaction prior to the LOC expiration:

Date	Action
August 13	City Council / Authority Consideration Water Fund Audit Completed
Week of August 19	Rating Agency Presentations
Week of August 26	Ratings Received/ Reoffering Memorandum Published
Week of September 9	Order Period / Bonds Remarketed
Week of September 23	Transaction Closes

Water Utility Fund Audit and Timing

The City engaged the services of the firm of Pun & McGeady LLP in order to perform a separate audit of the City of Stockton's Water Utility Fund. The preliminary remarketing agreement for council review will include a draft of the audited financial statements which management does not anticipate will change materially to the final published audit. This audit will present only the Water Fund. The final Water Fund audit will be published in the Preliminary Remarketing Memorandum used to remarket the Bonds. The final Water Fund audit will also be shared with the Council Audit Committee at their September 2013 meeting.

Recommendation

Recommend, if the true interest costs on a fixed basis are not to exceed 6.75%, the City Council and Board of Directors of the Authority 1) exercise its election under the Series 2010A Bond Indenture to remarket the bonds, 2) authorize the election under the Indenture to convert the interest rate period of the bonds to fixed rates to maturity, per the resolutions described above, and 3) authorize the Mayor, City Manager, and Chief Financial Officer to execute agreements, documents and certificates and take such other actions as are appropriate to carry out the intent of these Resolutions.

In the event that the bonds are not sold or true interest costs on a fixed basis exceed 6.75%, staff will return to Council with an alternative option prior to the expiration of the LOC.

FINANCIAL SUMMARY

Proposed Sources and Uses

Attachment I, "Sources and Uses of Funds," is similar to a mortgage escrow statement. This section is a short table stating the source of all the money available from the financing transaction and how it is proposed to be used. If moneys are provided from other than proceeds from the sale of bonds that is also disclosed. Any requirements for setting aside proceeds in reserve bank accounts under the terms of the bond and the costs to issue the debt are included.

The proposed sources and uses for the remarketed bonds is included in Exhibit I and shows estimates using a "total interest cost" rate of 6.26%. Significant items in this schedule are:

The remarketing of the debt (\$54.2 million par value) is proposed to be at a premium of \$3.5 million for total proceeds to the City of \$57.7 million. The bonds are expected to be remarketed at a premium in order to provide an attractive yield (interest return) to potential investors, which vary over the terms of the bonds. In addition, the City will utilize existing restricted funds it holds for payment of the Series 2010A bonds of \$3.8 million. This provides a total of \$61.5 million for use in repurchasing the existing bonds.

The proceeds of \$55.0 million will be used to pay off existing bondholders. This equals the current amount of bonds outstanding. The proceeds will also be used to pay for the costs of the remarketing which includes the bond underwriter fee of up to 1% of the par amount of the bonds projected to be approximately \$541,800 and other costs of approximately \$228,000 for a total cost to issue of \$769,800. The balance of \$5.8 million will be set aside in restricted cash debt service reserves and are pledged for payment of the bond.

Water Fund Pro-forma

The Water Fund pro-forma (Attachment G) projects the system revenues, operation and maintenance "O&M" expenses, capital outlay, and debt service used to operate the Water Fund. After the payment of O&M, the waterfall of the remaining net revenues available for debt service are first used to pay the senior obligations which include a small Drought Loan, the Series 2002A, Series 2005A and the remarketed Series 2010A debt obligations. After the payment of the senior obligations, the remaining net revenue is available to pay the subordinate obligations of the system which include the tax-exempt Series 2009A and the Taxable Build America Bonds, Series 2009B.

The pro-forma shows that the City, after the remarketing of the Series 2010A Bonds, will still maintain all covenants agreed to in the financing documents including minimum coverage ratio of 115% of fiscal year debt service on the subordinate bonds.

The Water Fund will dip below the recommended reserve levels of at or near the minimum 6-months (or 50%) of O&M as established by the City Council. However, this won't occur until FY 16-17 and this indicator begins to climb again by FY 19/20.

The impact of the higher fixed interest rates on the Series 2010A remarketed bonds will cause a higher utilization of the Rate Stabilization Fund, which is a separate fund dedicated for debt service coverage. Both pro-forma scenarios (Attachment G) show the rate stabilization fund rebounding quickly after this increased debt service. This rebound of the fund is a key indication of the health of the fund, as this rebound occurs without any increases in customer water rates. At this funding level is the Rate Stabilization fund will maintain adequate funding to meet the purpose of the fund.

Debt Service Comparison

The schedule in Attachment H shows the annual increase in debt service for the fixed-rate conversion, based on market rates as of July 29, 2013, as compared to the 20-year historical average of variable rates. This results in an approximate average annual increase in debt service of

approximately \$913,000 per year or \$25.55 million over the life of the bonds. The true interest cost "TIC" of the bonds is 6.26% and the converted debt service is reflected in the pro-forma in Attachment G. The potential range of debt service varies based on the interest rate. Staff estimates that when compared to the historical average of variable rates the increased debt service could range from \$1,164,020 at a maximum interest rate of 6.75% to \$517,000 at a 5.5% interest rate.

Fiscal Year 2013-14 Budget

There is sufficient cash in the Water Enterprise Fund to pay the revised 2013-14 annual debt service.

Attachment A - 2013 Remarketing Memorandum (DRAFT) - Stockton PFA DWSP 2010A Bonds

Attachment B - Stockton PFA Series 2010A First Supplemental Indenture

Attachment C - Stockton PFA Series 2010A First Supplemental Installment Purchase Contract

Attachment D - Bond Purchase Contract 2010A Series

Attachment E - 2013 2010A Bond Conversion Continuing Disclosure Certificate

Attachment F - Banks Reservation of Rights Notice Update

Attachment G - City of Stockton's Water Fund 7-Year Pro-forma (Fiscal Years 2013 - 2020)

Attachment H - Debt Service Comparison

Attachment I - Preliminary & Proposed Sources and Uses of Funds (Subject to Change)

PRELIMINARY REMARKETING MEMORANDUM DATED AUGUST __, 2013

REMARKETING – NOT A NEW ISSUE
FULL BOOK-ENTRY

RATINGS: (See “RATINGS”)

\$ _____^{*}
STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A
(DELTA WATER SUPPLY PROJECT)

Dated: Original Date of Issuance
(October 21, 2010)

Due: As shown on inside front cover

This cover page contains certain information for reference only. It is not a summary of this issue. Investors must read the entire Remarketing Memorandum to obtain information essential to the making of an informed investment decision.

This Remarketing Memorandum is to be used for the limited purpose of providing information in connection with the conversion of the interest rate on the Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Series 2010A Bonds”) in the aggregate principal amount of \$ _____^{*}. The Series 2010A Bonds are dated the date of their original issuance (October 21, 2010) and, assuming satisfaction of certain conditions, will be converted to Fixed Rate Bonds, that is, Series 2010A Bonds bearing interest at Long-Term Interest Rates for a Long-Term Interest Rate Period extending to October 1, 2040, on [September __, 2013] (the “Conversion Date”). After the Conversion Date, the Series 2010A Bonds will mature on the dates shown on the inside front cover page and, commencing on the Conversion Date, will bear interest at the fixed rates set forth on the inside cover page. Interest on the Series 2010A Bonds will be payable on each April 1 and October 1, commencing October 1, 2013.

The Series 2010A Bonds are subject to optional and mandatory redemption prior to their respective maturities. See “THE SERIES 2010A BONDS – Redemption Provisions” herein.

The Series 2010A Bonds were issued in fully registered form and, after the Conversion Date, will be available in denominations of \$5,000 or any integral multiple thereof. The Series 2010A Bonds are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). So long as Cede & Co. is the registered owner of the Series 2010A Bonds, payment of principal and Redemption Price of, and interest on the Series 2010A Bonds will be made to Cede & Co. Purchasers will not receive Series 2010A Bonds representing their interest in the Series 2010A Bonds. DTC acts as securities depository for the Series 2010A Bonds. Individual purchases of the Series 2010A Bonds will be made in book-entry form only. See APPENDIX E – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

The Series 2010A Bonds were issued by the Stockton Public Financing Authority (the “Authority”) to provide funds for: (i) designing, constructing, acquiring, and installing certain additions, betterments, extensions and improvements constituting a phase of the Delta Water Supply Project (the “Water Project”) to the Water System (the “Water System”) of the City of Stockton (the “City”); (ii) making deposits in the Reserve Fund established for the Series 2010A Bonds under the Indenture, dated as of October 1, 2010, as amended (the “Indenture”), by and between the Authority and Wells Fargo Bank

National Association, as trustee (the “Trustee”) in the amount of the Reserve Requirement (as defined herein); (iii) funding interest on a portion of the Series 2010A Bonds through and until June 30, 2012; and (iv) paying certain costs associated with the issuance of the Series 2010A Bonds. See “THE SERIES 2010A BONDS.”

The Series 2010A Bonds were issued by the Authority pursuant to the Indenture. The Series 2010A Bonds are limited obligations of the Authority payable solely from installment payments (the “2010 Installment Payments”) to be made by the City under an Installment Purchase Contract, dated as of October 1, 2010, as amended (the “Installment Purchase Contract”), by and between the Authority and the City and certain amounts held under the Indenture. As security for the payment of the 2010 Installment Payments, the City has pledged revenues derived from the operation of the Water System remaining after the payment of operation and maintenance costs (the “Net System Revenues”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS.”

The City has obligations outstanding that are secured by and payable from Net System Revenues on a parity with the 2010 Installment Payments (the “Existing Parity Obligations”) as more fully described herein. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS – Parity Obligations – Existing Parity Obligations.” The 2010 Installment Payments are secured by and payable from Net System Revenues on a basis senior to the installment payments made by the City securing the Authority’s outstanding \$15,540,000 principal amount of Water Revenue Bonds, Series 2009A (Delta Water Supply Project) and \$154,550,000 principal amount of Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project) (together, the “2009 Bonds”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS – Subordinate Obligations.”

The City may issue additional obligations payable from Net System Revenues on a parity with the 2010 Installment Payments and the Existing Parity Obligations. However, for as long as the 2009 Bonds are outstanding, the City has covenanted not to issue any additional Parity Obligations other than the Parity Obligations issued in connection with the Series 2010A Bonds. The City may also issue additional obligations payable from the Net System Revenues on a basis subordinate to the 2010 Installment Payments and the Existing Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS – Parity Obligations” and “– Subordinate Obligations.”

THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2010 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE SERIES 2010A BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2010 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION PAYABLE SOLELY FROM THE NET SYSTEM REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL AND REDEMPTION PRICE OF, OR INTEREST ON THE SERIES 2010A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE SERIES 2010A BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT

OF THE SERIES 2010A BONDS. THE SERIES 2010A BONDS AND THE 2010
INSTALLMENT PAYMENTS ARE NOT PAYABLE FROM THE CITY'S GENERAL FUND.

On June 28, 2012, the City filed a petition seeking relief under chapter 9 of the United States Bankruptcy Code ("chapter 9") in the United States Bankruptcy Court for the Eastern District of California. The City believes that the filing of the petition under chapter 9 will not adversely impact the Series 2010A Bonds, and the City intends to continue to fully perform all of its obligations with respect thereto. See "INTRODUCTION – Effect of City Chapter 9 Filing."

On the date of original issuance of the Series 2010A Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, delivered its opinion that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and is exempt from State of California personal income taxes. Bond Counsel's opinion also stated that interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds. The opinion of Bond Counsel delivered in connection with the original issuance of the Series 2010A Bonds has not been updated as of the date of this Remarketing Memorandum, and Bond Counsel is not rendering any opinion on the current tax status of the Series 2010A Bonds. See "TAX MATTERS."

CITI

Dated: September __, 2013.

* Preliminary; subject to change.

\$ _____^{*}
STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A
(DELTA WATER SUPPLY PROJECT)

MATURITY SCHEDULE

Maturity Date (October 1)	Principal Amount	Interest Rate	Yield	Price	CUSIP No. [†]
---------------------------------	---------------------	------------------	-------	-------	------------------------

\$	%	Term Bond due October 1, 20[]	Price [] %		CUSIP No. [†]
\$	%	Term Bond due October 1, 20[]	Price [] %		CUSIP No. [†]

^{*} Preliminary; subject to change.

[†] Copyright 2013, American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed for the American Bankers Association by Standard and Poor's Financial Services LLC. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. None of the Authority, the City or the Remarketing Agent takes any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2010A Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

No dealer, broker, salesperson or other person has been authorized by the Authority, the City or the Remarketing Agent to give any information or to make any representations other than as contained in this Remarketing Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing.

This Remarketing Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series 2010A Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Remarketing Memorandum is not to be construed as a contract with the purchasers of the Series 2010A Bonds. Statements contained in this Remarketing Memorandum which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact.

The information set forth herein has been obtained from sources which are believed to be reliable, but such information is neither guaranteed as to accuracy or completeness, nor shall it be construed as a representation of such by the Authority, the City or the Remarketing Agent. The information and expressions of opinion stated herein are subject to change without notice; and neither the delivery of this Remarketing Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or in the condition of the Water System, since the date hereof.

The summaries and references to the Indenture, the Installment Purchase Contract, the Act and to other statutes and documents referred to herein do not purport to be comprehensive or definitive and are qualified in their entireties by reference to each such statute and document. This Remarketing Memorandum including any amendment or supplement hereto is intended to be deposited with one or more information repositories.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum: the Remarketing Agent has reviewed the information in this Remarketing Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

IN CONNECTION WITH THE REMARKETING OF THE SERIES 2010A BONDS, THE REMARKETING AGENT MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2010A BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE REMARKETING AGENT MAY OFFER AND SELL THE SERIES 2010A BONDS TO CERTAIN DEALERS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES SET FORTH ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE REMARKETING AGENT.

THE SERIES 2010A BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS CONTAINED IN SUCH ACT. THE SERIES 2010A BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

The City maintains a website. Unless specifically indicated otherwise, the information presented on that website is not incorporated by reference as part of this Remarketing Memorandum and should not be relied upon in making investment decisions with respect to the Series 2010A Bonds.

Certain statements included or incorporated by reference in this Remarketing Memorandum constitute “forward-looking” statements. Such statements are generally identifiable by the words “expects,” “forecasts,” “projects,” “intends,” “anticipates,” “estimates,” “assumes” and analogous expressions. The achievement of certain results or other expectations contained in such forward-looking statements are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those that have been projected. No assurance is given that actual results will meet the forecasts of the City in any way, regardless of the optimism communicated in the information, and such statements speak only as of the date of this Remarketing Memorandum. The Authority and the City disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any changes in the expectations of the Authority and the City with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

**STOCKTON PUBLIC FINANCING AUTHORITY
CHAIR AND BOARD OF DIRECTORS
AND
CITY COUNCIL
CITY OF STOCKTON**

**CHAIR AND BOARD OF DIRECTORS
AND MAYOR AND CITY COUNCIL**

Anthony Silva	<i>Chair and Mayor</i>
Paul Canepa	<i>Vice Chair and Vice Mayor, District 3</i>
Elbert H. Holman, Jr.	<i>Member and Councilmember, District 1</i>
Katherine M. Miller	<i>Member and Councilmember, District 2</i>
Moses Zapien	<i>Member and Councilmember, District 4</i>
Dyane Burgos	<i>Member and Councilmember, District 5</i>
Michael Tubbs	<i>Member and Councilmember, District 6</i>

CITY STAFF

Bob Deis, *City Manager*
John Luebberke, *City Attorney*
Vanessa Burke, *Chief Financial Officer*
C. Mel Lytle, Ph.D., *Director of Municipal Utilities*
Tyrell Staheli, *Municipal Utilities Finance Officer*
Moss Adams LLP*, *City Auditor*
Bonnie Paige, *City Clerk*

SPECIAL SERVICES

BOND AND DISCLOSURE COUNSEL

Orrick, Herrington & Sutcliffe LLP

FINANCIAL ADVISOR

Del Rio Advisors, LLC
Modesto, California

TRUSTEE

Wells Fargo Bank, National Association
San Francisco, California

* In March 2013, a contract was entered into for the firm Moss Adams LLP to provide services to the City as the City Auditor.

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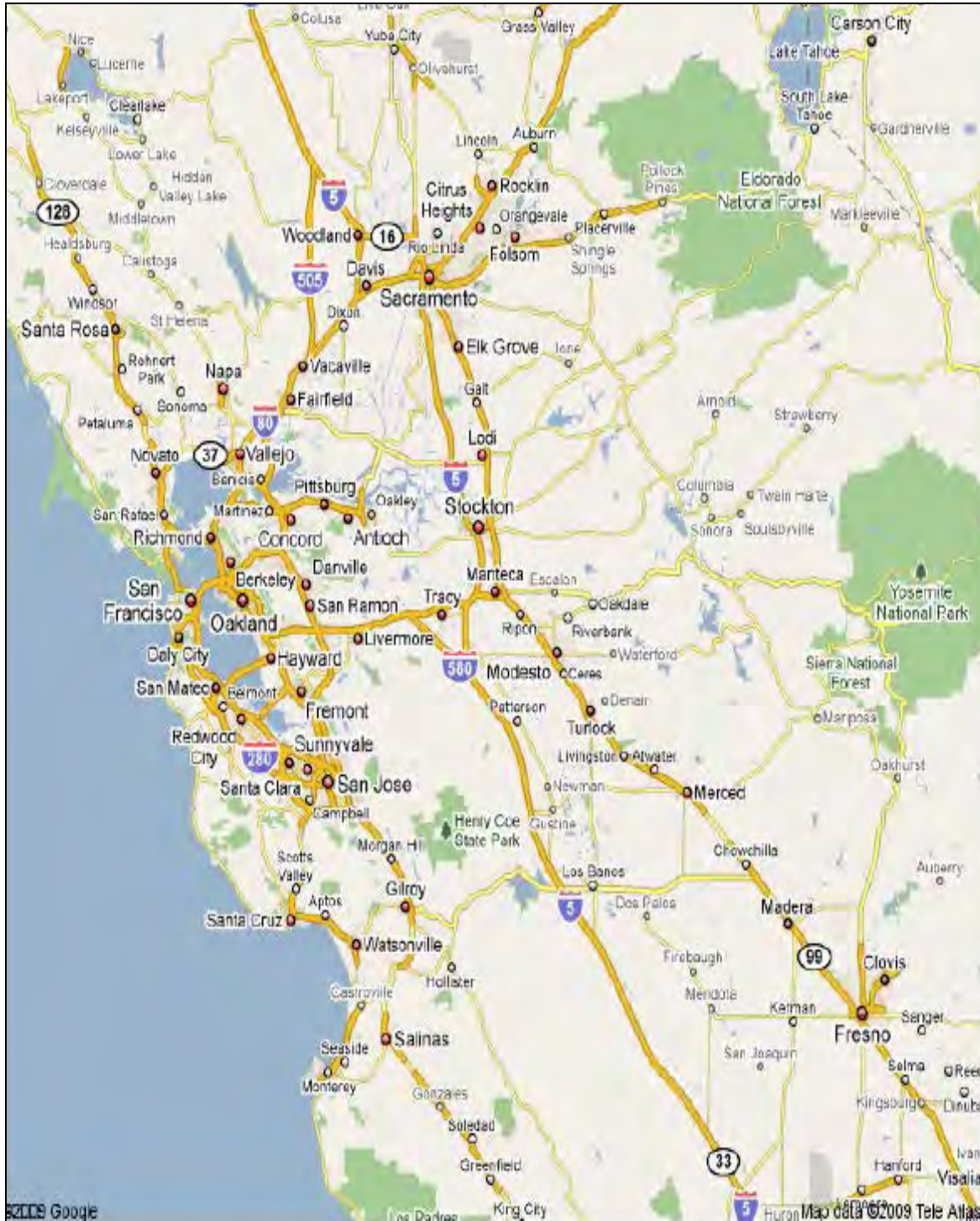
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REGIONAL MAP

City of Stockton
San Joaquin County, California



REMARKETING MEMORANDUM

\$ _____ *

**STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A
(DELTA WATER SUPPLY PROJECT)**

INTRODUCTION

This Introduction is only a brief description of, and is qualified by, more complete and detailed information contained in the entire Remarketing Memorandum, including the cover page through the appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Remarketing Memorandum. The offering of the Series 2010A Bonds to potential investors is made only by means of the entire Remarketing Memorandum. Capitalized terms used herein and not otherwise defined shall have the meanings given to such terms as set forth in the Indenture or the Installment Purchase Contract. See APPENDIX C — “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS — THE INDENTURE — Definitions of Certain Terms.”

General

The purpose of this Remarketing Memorandum is to furnish information with respect to the conversion of the interest rate on the \$ _____ * principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Series 2010A Bonds”). The Series 2010A Bonds were issued by the Stockton Public Financing Authority (the “Authority”) under and pursuant to Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended (the “Act”), a resolution adopted by the Authority on October 5, 2010 and in accordance with the provisions of an Indenture, dated as of October 1, 2010, as amended (the “Indenture”), by and between the Authority and Wells Fargo Bank National Association, as trustee (the “Trustee”).

The Series 2010A Bonds were dated the date of their original issuance (October 21, 2010) and, assuming satisfaction of certain conditions, will be converted to Fixed Rate Bonds, that is, Series 2010A Bonds bearing interest at Long-Term Interest Rates for a Long-Term Interest Rate Period extending to October 1, 2040, on [September __], 2013 (the “Conversion Date”). After the Conversion Date, the Series 2010A Bonds will mature on the dates shown on the inside front cover page and, commencing on the Conversion Date, will bear interest at the fixed rates set forth on the inside cover page. Interest on the Bonds will be payable on each April 1 and October 1, commencing October 1, 2013.

Purpose

The Series 2010A Bonds were issued by the Authority for the primary purpose of: (i) financing the costs of designing, constructing, acquiring, and installing certain additions, betterments, extensions and improvements constituting a phase of Delta Water Supply Project (the “Water Project”) to the Water System (the “Water System”) of the City of Stockton (the “City”); (ii) making a deposit in the Reserve Fund established for the Series 2010A Bonds under the Indenture in the amount equal to the Reserve Requirement; (iii) funding interest on a portion of the Series 2010A Bonds through and until June 30, 2012; and (iv) paying certain costs associated with the issuance of the Series 2010A Bonds. See

* Preliminary; subject to change.

“PLAN OF FINANCE,” “ESTIMATED SOURCES AND USES OF PROCEEDS OF BONDS” and “THE WATER PROJECT.”

Security for the Series 2010A Bonds

The Series 2010A Bonds are limited obligations of the Authority payable solely from installment payments (the “2010 Installment Payments”) to be made by the City under an Installment Purchase Contract, dated as of October 1, 2010, as amended (the “Installment Purchase Contract”), by and between the Authority and the City and certain amounts held under the Indenture. As security for the payment of the 2010 Installment Payments, the City has pledged “Net System Revenues” derived from the operation of the Water System after payment of operations and maintenance costs. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS.”

The City may issue additional obligations payable from Net System Revenues on a parity with the 2010 Installment Payments and Existing Parity Obligations (each as defined herein). However, for as long as the 2009 Bonds (defined herein) remain outstanding, the City has covenanted not to issue any additional Parity Obligations other than the Parity Obligations issued in connection with the Series 2010A Bonds. The City may also issue additional obligations payable from the Net System Revenues on a basis subordinate to the 2010 Installment Payments and the Existing Parity Obligations. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS – Parity Obligations” and “ – Subordinate Obligations.”

THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2010 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE SERIES 2010A BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2010 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION PAYABLE SOLELY FROM THE NET SYSTEM REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE SERIES 2010A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE SERIES 2010A BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2010A BONDS. THE SERIES 2010A BONDS AND THE 2010 INSTALLMENT PAYMENTS ARE NOT PAYABLE FROM THE CITY’S GENERAL FUND.

Existing Parity Obligations

The pledge of Net System Revenues securing the 2010 Installment Payments is on a parity with the pledge of Net System Revenues securing the payment or setting aside of all payments, transfers and other deposits (including debt service) on the following obligations: (i) the United States Department of Commerce Economic Development Administration 5%, 40-year Drought Relief Loan dated August 1977, which is currently outstanding in the principal amount of \$334,633 with a due date of July 1, 2017; (ii) the obligation of the City with respect to the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A delivered by the

California Statewide Communities Development Authority on May 7, 2002, which are currently outstanding in the aggregate principal amount of \$8,760,000 with a final maturity date of October 1, 2022; and (iii) the Stockton Public Financing Authority 2005 Water Revenue Bonds, Series A (Water System Capital Improvement Projects) (the “2005 Series A Bonds”), which are currently outstanding in the aggregate principal amount of \$24,230,000 with a final maturity date of October 1, 2035 (collectively, the “Existing Parity Obligations”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS – Parity Obligations.”

Outstanding Subordinate Debt

The 2010 Installment Payments are secured by and payable from the Net System Revenues on a basis senior to the City’s installment payments securing the Authority’s outstanding \$15,540,000 principal amount of Water Revenue Bonds, Series 2009A (Delta Water Supply Project) (the “Series 2009A Bonds”) and \$154,550,000 principal amount of Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project) (the “Taxable Series 2009B Bonds” and together, the “2009 Bonds”). See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS–Subordinate Obligations.”

Effect of City Chapter 9 Filing

On June 28, 2012, the City filed a petition seeking relief under chapter 9 of the United States Bankruptcy Code (“chapter 9”) in the United States Bankruptcy Court for the Eastern District of California (the “Bankruptcy Court”). The City believes that the filing of the petition under chapter 9 will not adversely impact the Series 2010A Bonds, and the City intends to continue to fully perform all of its obligations with respect thereto. Under the United States Bankruptcy Code, the Series 2010A Bonds are considered to be “special revenues” debt, and the pledge of and lien on the Net System Revenues for the Series 2010A Bonds will remain in effect to secure the Series 2010A Bonds. Accordingly, the City’s position, which is supported by the decisions of both the Bankruptcy Court and the United States Bankruptcy Appellate Panel of the Ninth Circuit in the City of Vallejo chapter 9 case, and has not been challenged by creditors of the City’s general fund, is that the City’s filing of the petition under chapter 9 will not adversely affect the pledge of and lien on the Net System Revenues for the Series 2010A Bonds and will not have any adverse effect on the timely payment of debt service on the Series 2010A Bonds. As of the date of this Remarketing Memorandum, no filing has been made in the City’s chapter 9 case seeking to impair the pledge of and lien on the Net System Revenues for the Series 2010A Bonds.

On June 26, 2012, the City Council of the City adopted a Pendency Plan, which is the *defacto* operating budget for the City during the pendency of the chapter 9 case. The Pendency Plan contemplates that the City will not make payments during Fiscal Year 2012-13 from its general fund on certain obligations payable from its general fund. However, the Pendency Plan provides for full payment of the City’s obligations with respect to the Series 2010A Bonds from the pledge of Net System Revenues, as well as full and timely payment on the City’s other bonds payable from special revenues, including water and wastewater enterprise bonds and bonds secured by special assessments and special taxes. The Pendency Plan may be modified and adjusted by the City Council from time to time without court approval. Any Plan of Adjustment confirmed in the chapter 9 case will supersede the Pendency Plan. Because the chapter 9 case was not resolved prior to the end of the Fiscal Year 2012-13 (June 30, 2013), the City adopted its 2013-14 budget on June 25, 2013 based on the Pendency Plan then in effect. The City’s 2013-14 budget contemplates full payment of the 2010 Installment Payments due in such Fiscal Year.

As described above, under the Pendency Plan the City has not made and will not make payments on certain of its general fund obligations consisting of pension obligation bonds and leases supporting

lease revenue bonds issued by the Authority. This has resulted in both the City and the Authority being in default on such obligations, which default may continue in the future. However, neither the City nor the Authority have defaulted on any payment with respect to any special fund obligations including the Series 2010A Bonds, other obligations payable from the revenues of the Water System, obligations payable from the revenues of the City's Wastewater System and land secured obligations. The City Council of the City and the City Manager of the City have taken the position that redistributing revenues of the Water System to address the City's general fund insolvency would be in violation of California law.

Continuing Disclosure

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Series 2010A Bonds or to any decision to purchase, hold or sell the Series 2010A Bonds, and the Authority will not provide any such information. The City has undertaken all responsibilities of the Authority for any continuing disclosure to Holders of the Series 2010A Bonds. The City has covenanted for the benefit of Holders of the Series 2010A Bonds and beneficial owners to provide certain financial information and operating data relating to the City and the Water System by not later than 270 days after the end of the City's Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events. The Annual Report and notices of events will be filed by means of the Electronic Municipal Market Access ("EMMA") site maintained by the Municipal Securities Rulemaking Board (the "MSRB"). The specific nature of the information to be contained in the Annual Report or the notices of events is set forth in APPENDIX D — "CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Remarketing Agent in complying with S.E.C. Rule 15c2-12(b)(5).

Bondowners Risks

An investment in the Series 2010A Bonds involves risk. See "BONDOWNERS' RISKS" for a discussion of important investment considerations and other risk factors associated with the purchase of the Series 2010A Bonds. Any one or more of the risks discussed, and others, could lead to a decrease in the market value of the Series 2010A Bonds or the ability of the City to make 2010 Installment Payments. Potential purchasers of the Series 2010A Bonds are advised to review the entire Remarketing Memorandum carefully and to conduct such due diligence and other review as they deem necessary and appropriate under the circumstances.

Certain Information Related to this Remarketing Memorandum

Brief descriptions of the Series 2010A Bonds, the security for the Series 2010A Bonds, the Water System, the Authority and the City are included in this Remarketing Memorandum together with summaries of certain provisions of the Series 2010A Bonds, the Indenture, the Installment Purchase Contract and certain other documents. Such descriptions do not purport to be comprehensive or definitive. Certain general demographic and economic information relating to the City is contained in APPENDIX A.

All references herein to the Indenture, the Installment Purchase Contract and other documents are qualified in their entirety by reference to such documents, and references herein to the Series 2010A Bonds are qualified in their entirety by reference to the form thereof included in the Indenture, copies of which are available prior to the issuance of the Series 2010A Bonds at the office of the Chief Financial Officer, City of Stockton, 425 North El Dorado Street, Stockton, California 95202; telephone: 209-937-8908 and thereafter at the office of the Trustee, Wells Fargo Bank National Association, 333 Market Street, 18th Floor, San Francisco, California 94105; telephone: 415-371-3353.

THE WATER PROJECT

General

The Series 2010A Bonds were issued for the purpose of: (i) financing a portion of the costs of the Water Project of the City; (ii) making a deposit to the Reserve Fund established for the Series 2010A Bonds under the Indenture in the amount of the Reserve Requirement; (iii) funding interest on a portion of the Series 2010A Bonds through and until June 30, 2012; and (iv) paying certain costs associated with the issuance of the Series 2010A Bonds.

The final total cost of the Water Project is estimated to be approximately \$221.5 million. However, Preston Pipelines Inc., a firm that worked on the Water Project, has filed a lawsuit against the City seeking an additional approximately \$4.7 million for extra work on one of the pump station facilities related to the Water Project. Actual expenditures on the Water Project are approximately \$[217] million through Fiscal Year 2011-12. See Table 1– “Water Project Estimated Sources of Funds and Estimated Costs.” The proceeds of the Series 2010A Bonds have been, and will continue to be, used by the Authority to finance costs of the Water Project which consists of improvements designed to provide supplemental water supplies in the amount of 30 million gallons per day (“mgd”) to the Stockton Metropolitan Area to satisfy current and future water demands. The balance of costs of the Water Project will be paid from grant funding or other available sources. See “THE WATER PROJECT – Funding Sources.”

In connection with the development and operation of the Water Project and on-going operation, maintenance and improvement of the Water System, the City adopted significant changes in the rates and charges for water services. For a summary of the current and adopted rates see “WATER SYSTEM FINANCES.”

Description

The Water Project, also referred to as the “Delta Water Supply Project,” includes the design, construction, acquisition and installation of a supplemental surface water supply system to serve the Stockton Metropolitan Area. The Water Project draws water from the Sacramento-San Joaquin River Delta (the “Delta”) and the Mokelumne River via Woodbridge Irrigation District facilities to provide additional water through the City’s existing distribution system. Specifically, the Water Project includes an Intake and Pump Station Facility located along the San Joaquin River; approximately 18 miles of underground pipelines; a 30 mgd water treatment plant, including related engineering, administrative and operations facilities; and the acquisition of necessary rights of way and financing related permitting, administrative and professional services costs. The Water Project is required by the City to replace declining and less reliable surface water supplies, protect groundwater resources and to generally provide for the current and future planned water needs within the Stockton Metropolitan Area.

On March 8, 2006, the City received its first Water Rights Permit (Permit No. 21176) from the State Water Resources Control Board to divert and treat up to 33,600 acre-feet per year from the Delta, to provide a supplemental water supply to current purchased surface water from the Stockton East Water District (“SEWD”) and groundwater. In compliance with Water Code Section 1485, the City is authorized to divert from the Delta an amount less than or equal to the amount of properly treated effluent discharge from the Regional Wastewater Control Facility to the Delta, based on a 15-day running average.

For calendar year 2012, potable water demand within the Service Area was approximately 31,245 acre-feet per year. In the early years of operation of the Water Project, the output will be less than 33,600 acre-feet per year. The City continues to purchase treated surface water from the SEWD at a lesser

amount and groundwater pumping will be at a minimal amount as system pressure needs dictate. On April 24, 2012, the City Council approved a Supply and Cost Allocation Agreement which reduces the amount of treated surface water purchased from the SEWD by the City from approximately 27,000 acre-feet to 17,500 acre-feet per year. It is anticipated that the City will purchase 17,500 acre-feet from the SEWD in addition to approximately 17,500 acre-feet from the Water Project with an additional 1,000 to 2,000 acre-feet of groundwater pumping to meet demand. The amount of water that was historically purchased from SEWD above 17,500 acre-feet per year is now made available to the other Urban Contractors, namely the California Water Service Company and San Joaquin County.

On January 22, 2008, the City and the Woodbridge Irrigation District (the “Irrigation District”) entered into an Agreement for Purchase of Water from the Woodbridge Irrigation District by the City of Stockton (the “WID Agreement”) for a term of 40 years with one 40-year option to extend. Subsequently, on May 13, 2010, the Irrigation District and City entered into an Amendment to extend the commencement date of payments by the City to the Irrigation District. Pursuant to the WID Agreement and Amendment, the Irrigation District is required to make available to the City 6,500 acre-feet per annum of surplus Mokelumne River water and the City is required to pay to the Irrigation District \$200 per acre-foot, increased annually by an amount not to exceed 3% per year, commencing January 1, 2011 (or \$1.3 million per annum), irrespective of whether the City takes the water available under the WID Agreement, and to construct certain capital improvements to measure and take delivery of the water. The water purchased pursuant to the WID Agreement and Amendment is available to the City from March 1 through July 31 of each year to supplement water sources when pumping from the Delta is restricted.

Initially, the Water Project will have the capacity to treat and deliver up to 30 mgd or 33,600 acre-feet per year of water. Ultimately, by approximately 2050, the Water Project is expected to be expanded to treat 160 mgd or 125,900 acre-feet per year of water.

Funding Sources

The total Water Project costs are anticipated to be approximately \$221.5 million. However, Preston Pipelines Inc., a firm that worked on the Water Project, has filed a lawsuit against the City seeking an additional approximately \$4.7 million for extra work on one of the pump station facilities related to the Water Project. Proceeds from the 2009 Bonds and the Series 2010A Bonds represent the primary source of funds for such costs. To meet the projected funding requirements for Operation and Maintenance Costs for the Water System and debt service on the Series 2010A Bonds, the Parity Obligations and the 2009 Bonds, on July 7, 2009, the City Council approved multi-year increases in monthly water rates and a new Surface Water Supply Fee to be charged to new customers connecting to the Water System for the cost of the new source capacity to be provided by the Water Project. See “WATER SYSTEM FINANCES.”

In 2006, the voters of the State of California (the “State”) passed Proposition 84 making grant funding available to implement projects identified in the June 2005 Delta Region Drinking Water Quality Management Plan – a plan for which the City was a participating member in addition to the Contra Costa Water District and Solano County Water Agency under a grant administered by the CALFED Bay-Delta Program. The City executed a grant agreement with the State for \$12,521,052 in Proposition 84 funding on February 9, 2011 to fund a portion of the costs for the Intake and Pump Station Facility.

Actual expenditures on the Water Project through June 30, 2012 total approximately \$[217] million. Remaining costs include monies encumbered and remaining to be paid on construction and other contracts in addition to pending negotiations on outstanding change orders. Table 1 below summarizes the estimated sources of funds and estimated costs of the components of the Water Project.

Table 1
City of Stockton Water System
Water Project Estimated Sources of Funds and Estimated Costs

Description of Funding Source	Amount
2009 Bonds ⁽¹⁾	\$138,043,612
2010 Bonds	48,073,831
Proposition 84 Grant	12,521,052
Other Water Revenues	24,859,576
Total Funding Sources	<u>\$223,498,071</u>

Description of Improvement	Estimated Cost
Intake and Pump Station Facility Design	\$ 2,773,000
Intake and Pump Station Facility Construction ⁽²⁾	19,835,000
Water Treatment Plant and Pipeline Design	6,270,000
Water Treatment Plant and Pipeline Construction ⁽²⁾	170,201,000
Indirect Costs ⁽³⁾	22,400,000
Total Estimated Project Cost	<u>\$221,479,000</u>

⁽¹⁾ Includes \$150M in project improvement funds less reimbursement of prior eligible project costs plus interest on project improvement fund.

⁽²⁾ Includes construction management costs. Does not include \$4.7 million contractor claim described above.

⁽³⁾ Includes project administration, permitting, acquisition and right of way and other services (environmental, financial, legal and professional).

Source: City of Stockton, Municipal Utilities Department.

Status of Construction

The Water Treatment Plant and pipelines portion of the Water Project, in addition to the majority of indirect costs, is complete. The City began taking beneficial occupancy of the Administration/Operations Building located at the Water Treatment Plant in March 2012. The Water Treatment Plant was dedicated May 30, 2012 and deemed substantially complete June 23, 2012. The Water Treatment Plant commenced the pumping, treatment and distribution of Woodbridge Irrigation District (WID) water in May 2012, followed shortly thereafter with the pumping, treatment and distribution of San Joaquin River (Delta) water in June 2012. Final completion of the Water Treatment Plant is scheduled for late summer 2013.

The Intake and Pump Station completed final acceptance testing on August 16, 2012 at which time substantial completion was reached. The City is currently operating and maintaining the Intake and Pump Station with final completion anticipated to be issued to the contractor by late summer 2013. As described above, Preston Pipelines Inc., a firm that worked on the Water Project, has filed a lawsuit against the City seeking an additional approximately \$4.7 million for extra work on one of the pump station facilities related to the Water Project.

Environmental and Land Use Approvals

Projects undertaken by the City, including the Water Project, are generally subject to the California Environmental Quality Act, as amended (Division 13 of the California Public Resources Code) (“CEQA”). Under CEQA, a public agency is required, following preparation of an initial assessment, to determine whether an environmental impact report (an “EIR”), a negative declaration or a mitigated negative declaration is required for a project. If there is substantial evidence that significant environmental effects may occur, an EIR is required to be prepared. The City prepared an EIR for the Water Project that was certified in November 2005 and obtained all other environmental approvals and permits including those required by State Department of Fish and Game and the Section 404 Clean Water Act to operate the Water Project.

Seismic Standards

Each component of the Water Project is designed to meet or exceed current seismic standards for municipal water systems.

Water Rate and Financing Study

The City contracted with HDR Engineering, Inc who completed a Water Rate and Financing Study in connection with the Water Project (the “Study”), the findings and recommendation of which were adopted by the City Council in 2009. The objective of the Study was to meet the overall funding and financing requirements of the Water Project and long-term capital needs of the Water System through a combination of funding resources, including water rates while balancing the impact of the capital improvements to the Water System between existing customers and future growth-related expansion. The Study includes a multi-year review of the capital improvement program to ensure adequate future revenue to construct and maintain Water System infrastructure. A copy of the Study can be obtained by contacting the City Clerk, City of Stockton, 425 North El Dorado Street, Stockton, California 95202 or online at www.stocktongov.com. For a description of the capital improvement program, see “THE WATER SYSTEM – Capital Improvement Program.”

THE SERIES 2010A BONDS

The following is a summary of certain provisions of the Series 2010A Bonds. Reference is made to the Indenture for the complete provisions thereof, and the discussion herein is qualified in its entirety by such reference. See APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – THE INDENTURE.” This Remarketing Memorandum provides information concerning the Series 2010A Bonds after conversion to Fixed Rate Bonds, that is Series 2010A Bonds bearing interest at Long-Term Interest Rates for a Long-Term Interest Rate Period extending to October 1, 2040.

General

The Series 2010A Bonds were issued in the original aggregate principal amount of \$55,000,000 and were dated as of the date as shown on the cover page of this Remarketing Memorandum. Commencing on the Conversion Date, and assuming satisfaction of certain conditions, \$ _____* of the Series 2010A Bonds will bear interest at the interest rates and mature on the dates shown on the inside front cover page of this Remarketing Memorandum. The aggregate principal amount of the Series 2010A Bonds not converted to fixed interest rates will be purchased and cancelled on the Conversion Date.

The Series 2010A Bonds were issued in fully-registered form, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). Individual purchases will be in principal amounts of \$5,000 or any integral multiple thereof. DTC acts as securities depository for the Series 2010A Bonds. Individual purchases and sales may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Series 2010A Bonds purchased. References herein to the Bondholders or Owners shall mean DTC and shall not mean the beneficial owners of the Series 2010A Bonds. So long as DTC, or its nominee, is the registered owner of all of the Series 2010A Bonds, all payments on the Series 2010A Bonds are made directly to DTC. Principal of and interest on the Series 2010A Bonds are payable by wire transfer by the Trustee to DTC, which is expected, in turn, to remit such amounts to the DTC Direct Participants for subsequent disbursement to DTC Indirect Participants and beneficial owners. See APPENDIX E – “DTC AND THE BOOK-ENTRY ONLY SYSTEM.”

Interest on the Series 2010A Bonds will be payable on each April 1 and October 1, commencing October 1, 2013 (each, an “Interest Payment Date”).

The principal or Redemption Price of, and interest of the Series 2010A Bonds are payable in lawful money of the United States of America. Payment of the interest on any Series 2010A Bond will be paid to the persons who are the registered owners thereof at their addresses as they appear on the bond registration books of the Trustee as of the close of business on the fifteenth day immediately preceding an Interest Payment Date (the “Record Date”). If the Series 2010A Bonds are no longer held in book-entry form, the principal or Redemption Price of, and interest on the Series 2010A Bonds will be paid by check mailed by the Trustee to the respective Owners of the Series 2010A Bonds or, at the written request of the Owner of \$1,000,000 or more in aggregate principal amount of Series 2010A Bonds at least two business days before the applicable Record Date, by wire transfer to the account or accounts in the United States filed with the Trustee for such purpose.

Interest on the Series 2010A Bonds will be calculated on the basis of a 360-day year based on twelve 30-day months.

* Preliminary; subject to change.

Redemption Provisions

Optional Redemption. The Series 2010A Bonds maturing on or after October 1, 20__, are subject to redemption prior to their respective maturities at the option of the Authority, in whole or in part (in such amounts and maturities as may be specified by the Authority or, if the Authority fails to specify such maturities, in inverse order of maturity), on any date on or after October 1, 20__, at a redemption price equal to 100% of the principal amount of the Series 2010A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

Mandatory Redemption. The Series 2010A Bonds maturing on October 1, 20[___], are also subject to redemption prior to their stated maturity on any October 1 on or after October 1, 20[___], in part, by lot, from mandatory sinking fund payments established for such Series 2010A Bonds, on October 1 of each of the years set forth below, in the following principal amounts, plus accrued interest thereon to the date fixed for redemption, without premium, as follows:

Mandatory Sinking Fund Redemption Date (October 1)	Principal Amount
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The Series 2010A Bonds maturing on October 1, 20[___], are also subject to redemption prior to their stated maturity on any October 1 on or after October 1, 20[___], in part, by lot, from mandatory sinking fund payments established for such Series 2010A Bonds, on October 1 of each of the years set forth below, in the following principal amounts, plus accrued interest thereon to the date fixed for redemption, without premium, as follows:

Mandatory Sinking Fund Redemption Date (October 1)	Principal Amount
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†

† Final Maturity.

Notice of Redemption. Notice of redemption will be mailed by the Trustee, not less than 30 nor more than 60 days prior to the redemption date, (i) to the respective Owners of any Series 2010A Bonds designated for redemption at their addresses appearing on the bond registration books of the Trustee by first-class mail, (ii) to the Securities Depository by facsimile and by first-class mail and (iii) to the Information Services by first-class mail. Notice of redemption is required to be given in the form and in accordance with the terms of the Indenture. Any

notice given by the Trustee with respect to an optional redemption of 2010A Bonds may be (i) conditioned on the occurrence of any event or (ii) rescinded by the City upon written notice to the Trustee at least five days prior to such redemption. If the Trustee receives a notice of rescission from the City, the Trustee will promptly mail notice of such rescission to the same parties and in the same manner as the notice of redemption was mailed.

Receipt of any such notice is not a condition precedent to the effect of such notice and neither failure to receive any such notice nor any immaterial defect contained therein will affect the validity of the proceedings taken in connection with the action or the event concerning which such notice was given.

Selection of 2010A Bonds to be Redeemed. If any Series 2010A Bond is in a denomination larger than a minimum Authorized Denomination, a portion of such Series 2010A Bonds (the minimum Authorized Denomination or any integral multiple thereof) may be redeemed pursuant to the Indenture, in which case the Trustee will, without charge to the Owner, authenticate and issue a replacement Series 2010A Bond or Series 2010A Bonds for the unredeemed portion thereof. In the case of a partial redemption of Series 2010A Bonds, the Trustee will select the Series 2010A Bonds to be redeemed by lot at such times as directed by the City in writing. The Trustee will not select the Series 2010A Bonds for mandatory redemption pursuant to the Indenture more than 60 days prior to the redemption date.

Effect of Redemption. If notice of redemption is given pursuant to the Indenture, and moneys for payment of the Redemption Price of, together with interest accrued to the redemption date on, the Series 2010A Bonds (or portions thereof) so called for redemption is held by the Trustee, on the redemption date designated in such notice, the Series 2010A Bonds (or portions thereof) so called for redemption will become due and payable at the Redemption Price specified in such notice together with interest accrued thereon to the date fixed for redemption, interest with respect to the Series 2010A Bonds so called for redemption shall cease to accrue, the Series 2010A Bonds (or portions thereof) will cease to be entitled to any benefit or security under the Indenture, and the Owners of the Series 2010A Bonds will have no rights in respect thereof except to receive payment of the Redemption Price and accrued interest. Any defect as failure to receive notice will not affect the sufficiency of the proceedings of redemption.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS

Pledge of Net System Revenues

The Series 2010A Bonds are limited obligations of the Authority issued under and pursuant to the Indenture, payable solely from the 2010 Installment Payments to be made by the City under the Installment Purchase Contract and certain amounts held under the Indenture. The obligation of the City to make 2010 Installment Payments constitutes a special obligation of the City payable solely from a pledge of the “Net System Revenues.”

The pledge of Net System Revenues is on a parity to the pledge of Net System Revenues securing payments with respect to the Existing Parity Obligations. See “– Parity Obligations,” and “THE WATER SYSTEM – Outstanding Existing Parity Obligations.”

“Net System Revenues” means, for any period, the System Revenues during such period less the Operation and Maintenance Costs during such period.

“Operation and Maintenance Costs” means the reasonable and necessary costs paid or incurred by the City for maintaining and operating the Water System, determined in accordance with Generally Accepted Accounting Principles, including all costs of water or capacity purchased or otherwise acquired for the Water System whether or not such water or capacity is delivered or capable of being delivered or otherwise made available to or received by or for the account of the Water System and all costs of treating water for the Water

System and all expenses necessary to maintain and preserve the Water System in good repair and working order, including all administrative and management costs of the City that are charged directly or apportioned to the operation of the Water System, such as salaries and wages of employees, overhead, taxes (if any) and insurance premiums (including payments required to be paid into any self insurance funds) and including all other reasonable and necessary costs of the City or charges required to be paid by it to comply with the terms of the Installment Purchase Contract or of any other Parity Obligations or obligations subordinate to Parity Obligations, but excluding in all cases (i) depreciation, replacement and obsolescence charges or reserves therefor (ii) amortization of intangibles, (iii) costs of capital additions, replacements, betterments, extensions or improvements to the Water System which under Generally Accepted Accounting Principles are chargeable to a capital account, and (iv) charges for the payment of principal and interest on any debt service on account of any Parity Obligations or obligation subordinate to the Parity Obligations.

“Parity Obligations” is defined in the Installment Purchase Contract as the Existing Parity Obligations, the 2010 Installment Payments, any obligation (including, but not limited to, any installment payment obligation) payable on a parity with the 2010 Installment Payments from Net System Revenues, and the regularly scheduled payments under any Payment Agreement designated as a “Parity Obligation” in the Payment Agreement but excluding Termination Payments.

“System Revenues,” means all gross income and revenue received or receivable by the City from the ownership or operation of the Water System, determined in accordance with Generally Accepted Accounting Principles, including all fees, rates, charges and amounts paid under any contracts received by or owed to the City in connection with the operation of the Water System and all other proceeds of insurance relating to the Water System and all other income and revenue howsoever derived by the City from the ownership or operation of the Water System.

THE SERIES 2010A BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM 2010 INSTALLMENT PAYMENTS MADE BY THE CITY AND CERTAIN MONEYS HELD UNDER THE INDENTURE. THE SERIES 2010A BONDS ARE NOT A DEBT OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, AND SHALL BE PAYABLE SOLELY FROM THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. THE OBLIGATION OF THE CITY TO MAKE 2010 INSTALLMENT PAYMENTS IS A SPECIAL OBLIGATION PAYABLE SOLELY FROM THE NET SYSTEM REVENUES OF THE WATER SYSTEM AS PROVIDED IN THE INSTALLMENT PURCHASE CONTRACT. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF (INCLUDING THE AUTHORITY) IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OR REDEMPTION PRICE OF, OR INTEREST ON THE SERIES 2010A BONDS. THE AUTHORITY HAS NO TAXING POWER. THE ISSUANCE OF THE SERIES 2010A BONDS SHALL NOT DIRECTLY OR INDIRECTLY OBLIGATE THE AUTHORITY, THE CITY, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR PLEDGE ANY FORM OF TAXATION WHATSOEVER OR TO MAKE ANY APPROPRIATION FOR PAYMENT OF THE SERIES 2010A BONDS. THE SERIES 2010A BONDS AND THE 2010 INSTALLMENT PAYMENTS ARE NOT PAYABLE FROM THE CITY’S GENERAL FUND.

Rate Covenant

In the Installment Purchase Contract, the City has covenanted that it will fix, prescribe and collect rates, fees and charges for the Water Service during each Fiscal Year which are estimated by the City to yield Adjusted Net System Revenues for such Fiscal Year equal to at least the Coverage Requirement for such Fiscal Year. The City may make adjustments from time to time in such fees and charges and may make such classification thereof as it deems necessary, but may not reduce the rates, fees and charges then in effect unless the Adjusted Net

System Revenues from such reduced rates, fees and charges are estimated by the City to be sufficient to meet the requirements of such covenant.

“Coverage Requirement” means, for any Fiscal Year or any other period, an amount of Adjusted Net System Revenue equal to at least 115% of Parity Debt Service for such Fiscal Year or such other period, as applicable.

“Adjusted Net System Revenues” means, for any Fiscal Year, the Net System Revenues for such Fiscal Year less, to the extent included in the calculation of Net System Revenues for such Fiscal Year, all amounts under any statutory scheme, during any period of calculation, received or expected to be received by the City or fiduciary, on behalf of the City, in such Fiscal Year in respect of any subsidy, reimbursement or other payment from a governmental entity (including, but not limited to, the federal government of the United States of America) in connection with, or related to, payments of principal of and/or interest on Parity Obligations. “Parity Debt Service” generally means with respect to any Parity Obligation for any period of calculation, those portions of the payments of interest on and principal and redemption premiums, if any, required to be made during such period under such Parity Obligations, less any such interest that is to be paid from proceeds of such Parity Obligations, less the earnings to be derived from the investment of moneys on deposit in debt service reserve funds and capitalized interest funds established for such Parity Obligations, as described in APPENDIX C – “SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS – DEFINITIONS OF CERTAIN TERMS.”

Rate Stabilization Fund

The City previously established a fund (the “Rate Stabilization Fund”) into which the City may, from time to time, deposit from current System Revenues such amounts as the City determines and the amount of available current System Revenues will be reduced by the amount so transferred. Amounts may be transferred from the Rate Stabilization Fund and deposited in the City Revenue Fund, and any amounts so transferred within 270 days after the end of a Fiscal Year will be deemed System Revenues for such Fiscal Year when so transferred. The City may also apply moneys on deposit in the Rate Stabilization fund for any lawful purpose. All interest or other earnings upon amounts in the Rate Stabilization Fund may be withdrawn therefrom and accounted for as System Revenues or used for any lawful purpose.

Deposit of Revenues

Pursuant to the Indenture, the Trustee is required to deposit all Revenues received into the Bond Payment Fund and transfer such funds to the Interest Account, Principal Account, Redemption Account and the Reserve Fund in the manner and at the times described below. The Bond Payment Fund (and all accounts contained therein) is required to be maintained so long as any Series 2010A Bonds are Outstanding.

All moneys in the Bond Payment Fund (and the accounts contained therein) are required to be disbursed only for the purposes and uses authorized in the Indenture; provided, that any money in the Bond Payment Fund or accounts contained therein not required to pay the principal and interest and redemption premiums, if any, on the Series 2010A Bonds will be transferred to the Authority to be used for any lawful purpose of the Authority on the Business Day immediately following each Interest Payment Date.

Interest Account. On or prior to each Interest Payment Date, the Trustee is required to transfer to the Interest Account that amount of money representing the portion of the Revenues constituting the interest becoming due and payable on such Interest Payment Date. All money in the Interest Account will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Bonds on their respective Interest Payment Dates.

Principal Account. On or prior to each maturity date, the Trustee is required to transfer to the Principal Account that amount of money representing the portion of the Revenues constituting the principal becoming due and payable on such maturity date. All money in the Principal Account will be used and withdrawn by the Trustee solely for the purpose of paying the principal on the Series 2010A Bonds on their respective maturities or on mandatory redemption prior thereto pursuant to the Indenture.

Redemption Account. Any prepayments paid to the Trustee pursuant to the Installment Purchase Contract are required to immediately be transferred to the Redemption Account. The Trustee is required to withdraw all money in the Redemption Account solely for the purpose of paying the interest and principal and redemption premiums, if any, on the Series 2010A Bonds to be redeemed on their respective redemption dates.

Reserve Fund. If moneys on deposit in the Reserve Fund are less than the Reserve Requirement, after making the deposits required to be made to the Principal Account, Interest Account and Redemption Account, the Trustee is required to deposit available Revenues in the Reserve Fund until the balance in the Reserve Fund equals the Reserve Requirement.

Reserve Fund

The Indenture establishes a Reserve Fund for the Series 2010A Bonds (the “Reserve Fund”). Proceeds from the issuance of the Series 2010A Bonds in the amount of the Reserve Requirement have been deposited in the Reserve Fund.

The Reserve Fund is required to be maintained in an amount equal to the “Reserve Requirement” which means, as of any date of determination, the least of: (i) 10% of the sale proceeds of the Series 2010A Bonds; (ii) the maximum annual 2010 Installment Payments payable under the Installment Purchase Contract in the then-current or any future one-year period ending on October 1; or (iii) 125% of the average annual 2010 Installment Payments payable under the Installment Purchase Contract in the then current and all future one-year periods ending on October 1, all as computed by the City under the Code and specified in writing to the Trustee.

On the Conversion Date the amount on deposit in the Reserve Fund will be \$_____, which is equal to the Reserve Requirement calculated as of the Conversion Date.

Parity Obligations

Existing Parity Obligations. The pledge of Net System Revenues to secure the 2010 Installment Payments on the Series 2010A Bonds is on a parity with the pledge of Net System Revenues securing the payment or setting aside of all payments, transfers and other deposits (including debt service) on the Existing Parity Obligations consisting of: (i) the United States Department of Commerce Economic Development Administration 5%, 40-year Drought Relief Loan dated August 1977, which is currently outstanding in the principal amount of \$334,633 with a due date of July 1, 2017; (ii) the obligation of the City with respect to the California Statewide Communities Development Authority Water and Wastewater Revenue Bonds (Pooled Financing Program), Series 2002A delivered by the California Statewide Communities Development Authority on May 7, 2002, which are currently outstanding in the aggregate principal amount of \$8,760,000 with a final maturity date of October 1, 2022; and (iii) the Authority’s 2005 Series A Bonds, which are currently outstanding in the aggregate principal amount of \$24,230,000 with a final maturity date of October 1, 2035.

Average annual debt service on the Existing Parity Obligations is approximately \$4,097,250 through Fiscal Year 2017-18 and \$4,369,044 through Fiscal Year 2035-36. See “DEBT SERVICE SCHEDULE.”

The documents securing the Existing Parity Obligations set forth various events of default thereunder, including failure to pay interest or principal when due or default in the performance of certain covenants. The

occurrence of an event of default relating to an Existing Parity Obligation permits the trustee for or other holder of such obligations to declare all principal of and interest on such obligations to be immediately due and payable. In such event, sufficient Net System Revenues may not be available to the Trustee to pay debt service with respect to the Series 2010A Bonds in a timely manner. In addition, in the case of an event of default with respect to the Existing Parity Obligations, the trustee (or lender) for such Existing Parity Obligations may take other actions which adversely impact the City's ability to pay 2010 Installment Payments securing the Series 2010A Bonds.

No Senior Obligations. The City covenants in the Installment Purchase Contract that it will not incur any obligations payable from Net System Revenues on a basis senior to the payment of the Existing Parity Obligations or the 2010 Installment Payments.

Issuance of Parity Obligations. The City may at any time and from time to time issue or create any Parity Obligations in addition to the 2010 Installment Payments (and an agreement or commitment that is a Credit Facility Provider Agreement or a Payment Agreement or will or may result in a Credit Provider Reimbursement Obligation, all of which may be incurred without compliance with the requirements described below), provided:

(i) None of the following has occurred and is continuing: (A) an Event of Default under the terms of the Installment Purchase Contract, and any installment purchase contract, indenture, trust agreement or other document that provides for the issuance of Parity Obligations (each an "Issuing Document") or (B) an Event of Default (as defined in any Credit Facility Provider Agreement) or (C) an Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement; and

(ii) The City obtains or provides a certificate or certificates, prepared by the City or at the City's option by a Consultant, showing that either:

(A) the Adjusted Net System Revenues for either the most recent Fiscal Year for which audited financial statements are available or any 12 consecutive calendar month period during the 18 consecutive calendar month period ending immediately prior to the incurring of such additional Parity Obligations were at least sufficient to satisfy the Coverage Requirement for each of the next five full Fiscal Years following the incurring of such additional Parity Obligations or each of the next three full Fiscal Years following the incurring of such additional Parity Obligations during which no interest is capitalized, whichever is later, including the Parity Debt Service during such Fiscal Years on such additional Parity Obligations; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the Adjusted Net System Revenues for such Fiscal Year or 12 calendar month period, as the case may be, to reflect:

(1) an allowance for Net System Revenues that would have been derived from each new connection to the Water System that was made prior to the incurrance of such additional Parity Obligations but which was not in existence, during all or any part of such Fiscal Year or 12 calendar month period under consideration, in an amount equal to the estimated additional Net System Revenues that would have been derived from each such connection if it had been made prior to the beginning of such Fiscal Year or 12 calendar month period, and

(2) an allowance for Net System Revenues that would have been derived from any increase in the rates, fees and charges fixed and prescribed for Water Service which became effective prior to the incurrance of such additional Parity Obligations but which was not in effect, during all or any part of such Fiscal Year or 12 calendar month period, in an amount equal to the estimated additional Net System Revenues that would have been derived from such increase in rates, fees and charges if it had been in effect prior to the beginning of such Fiscal Year or 12 calendar month period; or

(B) the estimated Adjusted Net System Revenues for each of the five full Fiscal Years next following the earlier of (i) the end of the period during which interest on such additional Parity Obligations is to be capitalized or, if no interest is capitalized, the Fiscal Year in which such additional Parity Obligations are incurred, or (ii) the date on which substantially all Water Projects financed with such additional Parity Obligations plus all Water Projects financed with all existing Parity Obligations are expected to commence operations, will be at least sufficient to satisfy the Coverage Requirement for such period; and for the purpose of providing such certificate or certificates, the City or the City's Consultant, as applicable, may adjust the foregoing estimated Adjusted Net System Revenues to reflect:

(1) an allowance for Net System Revenues that are estimated to be derived from any increase in the rates, fees and charges for Water Service which have been adopted by the City and which will be in effect during all or any portion of the period for which such estimates are provided; and

(2) an allowance for Net System Revenues that are estimated to be derived from new customers of the Water System anticipated to be served by any additions or improvements to or extensions of the Water System reasonably expected to become available during such five year period in an amount equal to the additional Net System Revenues that are estimated to be derived from such customers.

For purposes of clause (B) above, with respect to the Operation and Maintenance Costs utilized in computing Net System Revenues, the City or the City's Consultant, as applicable, is required to use such assumptions (which are required to be set forth in such certificate or certificates) as such believes to be reasonable, taking into account: (i) historical Operation and Maintenance Costs, (ii) Operation and Maintenance Costs associated with the additions or improvements to or extensions of the Water System to be financed with the proceeds of such additional Parity Obligations and any other new additions or improvements to or extensions of the Water System during such five year period and (iii) such other factors, including inflation and changing operations or policies of the City, as the City or the City's Consultant, as applicable, believes to be appropriate.

The certificate or certificates described above in paragraph (ii) are not required if the Parity Obligations being issued are for the purpose of refunding (x) then outstanding Parity Obligations, if at the time of the issuance of such refunding Parity Obligations a certificate of the City is delivered showing that Parity Debt Service in each Fiscal Year on all Parity Obligations outstanding after the issuance of the refunding Parity Obligations will not exceed 110% of Parity Debt Service in each corresponding Fiscal Year on all Parity Obligations outstanding prior to the issuance of such refunding Parity Obligations; or (y) then outstanding Balloon Obligations or Variable Interest Rate Obligations, but only to the extent that the principal amount of such Balloon Obligations or Variable Interest Rate Obligations has been put, tendered to or otherwise purchased by a standby purchase or other liquidity facility relating to such Balloon Obligations or Variable Interest Rate Obligations, as applicable.

In addition to the covenants described above, so long as the Existing Parity Obligations remain outstanding, the City is also required to satisfy certain covenants relating to the Existing Parity Obligations in order to issue or incur additional Parity Obligations. For so long as the 2009 Bonds remain outstanding the City has also covenanted not to issue any additional Parity Obligations other than the Parity Obligations incurred in connection with the Series 2010A Bonds.

Subordinate Obligations

There are outstanding \$15,540,000 principal amount of Series 2009A Bonds and \$154,550,000 principal amount of Taxable Series 2009B Bonds secured by installment payments payable by the City from Net System Revenues on a basis subordinate to the Parity Obligations and the Series 2010A Bonds. The Taxable Series 2009B Bonds were issued as "Build America Bonds" under the provisions of the American Recovery and

Reinvestment Act of 2009. The Authority expects to receive a cash subsidy (the “BABs Subsidy”) from the United States Treasury equal to 35% of the interest payable on the Taxable Series 2009B Bonds.

The City may issue or incur obligations secured by Net System Revenues subordinate in priority of payment and lien to the Parity Obligations and such obligations may be paid only in accordance with the provisions of the Installment Purchase Contract as long as (i) no Event of Default has occurred and is continuing (unless such Event of Default will not be continuing after the incurrence of such subordinate obligations); (ii) no Event of Default (as defined in the Credit Facility Provider Agreement) under any Credit Facility Provider Agreement has occurred and is continuing and (iii) no Event of Default or Termination Event (as defined in any Payment Agreement) under any Payment Agreement has occurred and is continuing (unless such Event of Default or Termination Event will not be continuing after the incurrence of such subordinate obligations); provided the obligations under any Credit Facility Provider Agreement may be paid notwithstanding the foregoing clauses (i) and (ii).

BONDOWNERS’ RISKS

This section provides a general overview of certain risk factors which should be considered, in addition to the other matters set forth in this Remarketing Memorandum, in evaluating an investment in the Series 2010A Bonds. This section is not meant to be a comprehensive or definitive discussion of the risks associated with an investment in the Series 2010A Bonds, and the order in which this information is presented does not necessarily reflect the relative importance of various risks. Potential investors in the Series 2010A Bonds are advised to consider the following factors, among others, and to review this entire Remarketing Memorandum to obtain information essential to the making of an informed investment decision. Any one or more of the risk factors discussed below, among others, could lead to a decrease in the market value and/or in the marketability of the Series 2010A Bonds or the ability of the City to make 2010 Installment Payments. There can be no assurance that other risk factors not discussed herein will not become material in the future.

General

The 2010 Installment Payments are payable solely from Net System Revenues. If for any of the reasons described below, or for any other reason, the City does not collect sufficient Net System Revenues to pay the 2010 Installment Payments, the City will not be obligated to utilize any other of its funds, other than amounts available in the Reserve Fund and certain other amounts on deposit in the funds and accounts established under the Indenture to pay debt service on the Series 2010A Bonds. See also “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS – Reserve Fund.”

Rate Covenant Not a Guarantee

The ability of the City to pay the 2010 Installment Payments depends on the ability of the City to generate Net System Revenues in the levels required by the Installment Purchase Contract. Although the City has covenanted in the Installment Purchase Contract to impose rates, fees and charges as more particularly described herein, and expects that sufficient revenues will be generated through the imposition and collection of such rates, fees and charges and other System Revenues described herein, there is no assurance that such imposition of such rates, fees and charges or other System Revenues will result in the generation of Net System Revenues in the amounts required by the Installment Purchase Contract. The City’s covenant does not constitute a guarantee that sufficient Net System Revenues will be available to pay the 2010 Installment Payments.

Proposition 218

General. On November 5, 1996, the voters of the State approved Proposition 218, known as the “Right to Vote on Taxes Act.” Proposition 218 added Articles XIII C and XIII D to the California Constitution, which

contain a number of provisions affecting the ability of cities and counties to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIII C. Article XIII C provides that the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge and that the power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments. Article XIII C does not define the terms “local tax,” “assessment,” “fee” or “charge.” On July 24, 2006, the Supreme Court held in *Bighorn-Desert View Water Agency v. Verjil* that the provisions of Article XIII C applied to rates and fees charged for domestic water use. In that decision, the Court noted that the decision did not address whether an initiative to reduce fees and charges could override statutory rate setting obligations. In any event, the City does not believe that Article XIII C grants to the voters within the City the power to repeal or reduce rates and charges in a manner that would be inconsistent with the contractual obligations of the City. No assurance can be given that the voters of the City will not, in the future, approve initiatives which seek to repeal, reduce or prohibit the future imposition or increase of assessments, fees or charges, including the fees and charges for the Water System, which are the source of Net System Revenues pledged by the City to make the 2010 Installment Payments.

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

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

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

In *Howard Jarvis Taxpayers Association v. City of Los Angeles*, the Court of Appeal held that fees for water that are based upon metered amounts used are charges for a commodity and not related to property ownership and, consequently, Article XIII D does not apply to such fees. However, in a decision rendered in February 2004, the California Supreme Court in *Richmond et al. v. Shasta Community Services District*, 32 Cal. 4th 409, upheld a Court of Appeals decision that water connection fees were not property related fees or charges subject to Article XIII D, while at the same time stating in dicta that fees for ongoing water service through an existing connection were property related fees and charges. In October 2004, the California Supreme Court granted review of the decision of the Fourth District Court of Appeal in *Bighorn-Desert View Water Agency v. Beringson*, 120 Cal. App. 4th 891 (2004), in which the appellate court had relied on *Howard Jarvis Taxpayers Association v. City of Los Angeles* and rejected the Supreme Court’s dicta in *Richmond et al. v. Shasta Community Services District*. On March 23, 2005, the California Fifth District Court of Appeal published *Howard Jarvis Taxpayers Association v. City of Fresno*, 127 Cal.App.4th 914 (5th Dist. 2005), holding that an “in lieu” fee which is payable to the general fund of the City of Fresno from its water utility and which is included in the water rate structure of the city was invalid. In reaching its decision, the court concluded that the city’s water rates were

“property related” fees, governed by the limitations of Article XIII D. The City of Fresno requested a review of this decision by the California Supreme Court, which denied review. On July 24, 2006, the Supreme Court ruled in *Bighorn-Desert View Water Agency v. Verjil*. In dicta, the Supreme Court repeated its previous dicta in *Richmond et al. v. Shasta Community Services District* that fees and charges for ongoing water service through an existing connection were property related fees and charges under Article XIII D.

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

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

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

Effect of Proposition 218 and of Possible General Limitations on Enforcement Remedies. The ability of the City to comply with its covenants under the Installment Purchase Contract and to generate Net System Revenues sufficient to make the 2010 Installment Payments may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) under Article XIII C or Article XIII D by voters, property owners, taxpayers or payers of assessments, fees and charges. Furthermore, any remedies available to the owners of the Series 2010A Bonds upon the occurrence of an event of default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain. In addition to the possible limitations on the ability of the City to comply with its covenants under the Indenture, the rights and obligations under the Series 2010A Bonds and the Indenture may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against municipal utility districts in the State of California.

Based on the foregoing, in the event the City fails to comply with its covenants under the Installment Purchase Contract, including its covenants to generate sufficient Net System Revenues, as a consequence of the application of Article XIII C and Article XIII D to make the 2010 Installment Payments, there can be no assurance that available remedies will be adequate to fully protect the interests of the holders of the Series 2010A Bonds.

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

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

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

System Expenses

There can be no assurance that the City’s projected expenses will be consistent with the descriptions in this Remarketing Memorandum. Increases in expenses including, but not limited to, personnel costs, regulatory compliance costs and changes in technology, could require an increase in rates or charges in order to comply with the rate covenant.

Limited Recourse on Default

If the City defaults on its obligation to pay debt service on the Series 2010A Bonds, the Trustee has the right to accelerate the total unpaid principal amount of the Series 2010A Bonds outstanding and interest accrued thereon. However, in the event of a default and such acceleration there can be no assurance that the City will have sufficient funds to pay the accelerated debt service from Net System Revenues.

Initiatives; Changes in Law

In recent years several initiative measures have been proposed or adopted which affect the ability of local governments to increase taxes and rates. Article XIII A, Article XIII B, Article XIII C, Article XIII D, and Proposition 218, were adopted as measures that qualified for the ballot through California’s initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the City or local districts to increase revenues or to increase appropriations which may affect the City’s revenues or its ability to expend its revenues. There is no assurance that the electorate or the State Legislature will not at some future time approve additional limitations which could affect the ability of the City to implement rate increases which could reduce Net System Revenues and adversely affect the security for the Series 2010A Bonds.

Statutory and Regulatory Impact

Laws and regulations governing transmission, treatment and delivery of water are enacted and promulgated by government agencies on the federal, State and local levels. Compliance with these laws and regulations may be costly, and, as more stringent standards are developed, these costs will likely increase. In addition, claims against the City for violations of regulations with respect to its facilities and services could be significant. Such claims are payable from Revenues or from other legally available sources.

Although the City has covenanted in the Installment Purchase Contract to fix, prescribe and collect rates and charges for the water service during each Fiscal Year sufficient to yield the debt service coverage required by the Installment Purchase Contract, no assurance can be given that the cost of compliance with such laws and regulations will not materially adversely affect the ability of the City to generate Net System Revenues in the amounts required by the Installment Purchase Contract and to pay debt service on the Series 2010A Bonds. Certain potential increasing regulatory standards which could materially increase the cost to the City of providing water services.

Risk of Earthquake and Other Natural Disasters

Earthquake. There are several active geological faults in the State that have potential to cause serious earthquakes that could result in damage within the City to the Water System, buildings, roads, bridges, and other property. The City is located in a zone 3 seismic area. Seismic zones aid in identifying and characterizing certain geological conditions and the risk of seismic damage at a particular location, and are used in establishing building codes to minimize seismic damage. The five seismic zones are: zone 0 (no measurable damage), zone 1 (minor damage), zone 2 (moderate damage), zone 3 (major damage) and zone 4 (major damage and greater proximity than zone 3 to certain major fault systems). While the City is not located in any existing special study zone delineated by the State Division of Mines and Geology as an area of known active faults, it is possible that new geological faults could be discovered in the area and that an earthquake occurring on such faults could result in damage of varying degrees of seriousness to property and infrastructure in the City, including the Water System.

In the event of a severe seismic event in or around the City, there could be substantial damage to the Water System facilities resulting in a reduction of Net System Revenues. Such reduction of Net System Revenues could have a material adverse effect on the City's ability to make timely payments of 2010 Installment Payments with respect to the Series 2010A Bonds.

Risk of Flooding. In accordance with the National Flood Insurance Reform Act (the "NFIRA") requiring, among other things, that the Federal Emergency Management Agency ("FEMA") assess its flood hazard map inventory at least once every five years. In 1995, FEMA informed the City that updated flood insurance rate maps would be prepared. In the absence of the construction of flood improvements, FEMA indicated that all of metropolitan Stockton and the surrounding County areas would be located within the boundaries of a 100-year floodplain. A 100-year floodplain is an area expected to be inundated during a flood event of the magnitude for which there is a 1% (or 1-in-100) probability of occurrence in any year.

In response, the City, the County, and the San Joaquin County Flood Control and Water Conservation District formed the San Joaquin Area Flood Control Agency ("SJAFCA"), a Joint Powers Authority created in May 1995. SJAFCA officials convinced representatives of FEMA to delay issuing the maps until SJAFCA constructed a \$70 million Flood Protection Restoration Project (the "FPRP") which also took into account full-buildout within the areas in accordance with then-existing general plans. The FPRP was completed in 1998 and consisted of flood wall and levee improvements along 40 miles of existing channel levees, 12 miles of levees, widening of the then-existing floodway, modifications to 24 bridges and the addition of two major detention basins. Updated flood insurance rate maps ("FIRMs") were issued on April 2, 2002, permitting development within all of metropolitan Stockton and surrounding areas without further restriction due to potential flood risk.

In the aftermath of Hurricane Katrina in August 2005, FEMA implemented a Flood Map Modernization program to update existing FIRMs, policies, regulations and procedures. In particular, FEMA has placed a high priority on reviewing, identifying and accrediting levees and levee systems nationwide to verify whether such levees and levee systems provide flood protection. To assure that levees shown on modernized FIRMs still provide that level of protection, FEMA requires that each levee in the country have a maintenance and operation plan.

FEMA has completed inspection of the levees in the County. The final FIRMs became effective on October 16, 2009, placing approximately 5,000 parcels in a 100-year floodplain. Efforts are presently underway to develop a project to remove these parcels from the 100-year floodplain.

In October 2007, the Governor signed into law Senate Bill 5 requiring urban areas in the Central Valley to reach a 200-year level of protection by 2025. Senate Bill 5 and a subsequent clean up bill, Senate Bill 1278, require local city and county planning agencies in the Central Valley including Stockton, to amend their General Plans by July 2, 2015 and to subsequently amend their zoning ordinances by July 2, 2016 to include specific information and requirements for new development, located within a flood hazard zone, to have 200-year flood protection. Since the City of Stockton is primarily situated within a flood hazard zone area, this requirement will be applicable citywide. It is not currently known what impact this requirement will have on new development in the City post July 2016 but could potentially negatively impact new development in the City and new utility connections.

In 2005 voters approved State propositions 1E and 84 making available \$5 billion for flood management. After the passage of propositions 1E and 84 the State Department of Water Resources has spent millions of dollars to evaluate levees and support existing and future projects to reach a 200-year level of flood protection for urban communities in the County including the City.

The City makes no representation that the construction of the FPRP will guaranty that FEMA will accredit the levee improvements completed in 1998 or any of the other levees within the City or that FEMA will not issue revised FIRMs in the future that place all or some of the City within the boundaries of a 100-year floodplain.

Risk Management and Insurance

The City employs a full-time Risk Manager, as well as claims and loss control professionals, for the prevention and mitigation of property, liability, and employee claims for injury or damage. The City has maintained a program of self-insurance for many years. The City participates in two public entity insurance risk pools: the California Joint Powers Risk Management Authority (CJPRMA) and the California State Association of Counties-Excess Insurance Authority (CSAC-EIA) for various risk pooling and financing. Excess pooled coverage for the self-insured general liability program is provided through the CJPRMA with an excess policy limit of \$40,000,000 subject to a self-insured retention (SIR) of \$1,000,000. Auto damage coverage is provided through an insured program with CJPRMA and has a policy deductible of \$10,000 per claim. Property coverage is provided through an insured program also through CJPRMA and has deductible of \$25,000 per occurrence. Coverage under this policy is not provided as to earthquake damage to any of its facilities. Excess pooled coverage for the self-insured workers' compensation program is provided through CSAC-EIA with statutory limits subject to a \$500,000 SIR.

Limitations on Remedies

The ability of the City to comply with its covenants under the Installment Purchase Contract and to generate Net System Revenues sufficient to pay principal of and interest with respect to the Series 2010A Bonds may be adversely affected by actions and events outside of the control of the City and may be adversely affected by actions taken (or not taken) by voters, property owners, taxpayers or persons obligated to pay assessments, fees and charges. See “– Proposition 218.” Furthermore, the remedies available to the owners of the Series 2010A Bonds upon the occurrence of an event of default under the Installment Purchase Contract are in many respects dependent upon judicial actions which are often subject to discretion and delay and could prove both expensive and time consuming to obtain.

In addition, enforcement of remedies may be limited by equity principles; the exercise by the United States of America of the powers delegated to it by the Federal constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the Owners of the Series 2010A Bonds to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitations, or modification of their rights. Remedies may be limited since the Water Project serves an essential public purpose.

In addition to the limitations on remedies contained in the Installment Purchase Contract, the rights and obligations under the Installment Purchase Contract may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against cities in the State of California. The opinion delivered by Bond Counsel, in connection with the original issuance of the Series 2010A Bonds, is subject to such limitations and the various other legal opinions delivered concurrently with the issuance of the Series 2010A Bonds were similarly qualified. See APPENDIX F – "ORIGINAL BOND COUNSEL OPINION." In the event the City fails to comply with its covenants under the Installment Purchase Contract or the Authority fails to pay principal of and interest on the Series 2010A Bonds, there can be no assurance of the availability of remedies adequate to protect the interest of the holders of the Series 2010A Bonds.

Loss of Tax Exemption on the Series 2010A Bonds

In order to maintain the exclusion from gross income for federal income tax purposes of the interest on the Series 2010A Bonds, the City and the Authority have covenanted in the Installment Purchase Contract to comply with the applicable requirements of the Internal Revenue Code of 1986, as amended. The interest on the Series 2010A Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of such Series 2010A Bonds as a result of acts or omissions of the City or the Authority in violation of this or other covenants in the Installment Purchase Contract applicable to the Series 2010A Bonds. The Series 2010A Bonds are not subject to redemption or any increase in interest rates should an event of taxability occur and will remain outstanding until maturity or prior redemption in accordance with the provisions contained in the Installment Purchase Contract. See "TAX MATTERS."

Risk of Tax Audit

In December 1999, as a part of a larger reorganization of the Internal Revenue Service (the "IRS"), the IRS commenced operation of its Tax Exempt and Government Entities Division (the "TE/GE Division"), as the successor to its Employee Plans and Exempt Organizations division. The new TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. Public statements by IRS officials indicate that the number of tax-exempt bond examinations (which would include the issuance of securities such as the Series 2010A Bonds) is expected to increase significantly under the new TE/GE Division. There is no assurance that if an IRS examination of the Series 2010A Bonds was undertaken that it would not adversely affect the market value of the Series 2010A Bonds. See "TAX MATTERS."

Secondary Market

There can be no guarantee that there will be a secondary market for the Series 2010A Bonds or, if a secondary market exists, that the Series 2010A Bonds can be sold for any particular price. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary marketing practices are suspended or terminated. Additionally, prices of issues for which a

market is being made will depend upon then prevailing circumstances. Such prices could be substantially different from the original purchase price.

THE AUTHORITY

The Authority was created by a Joint Exercise of Powers Agreement, dated June 18, 1990 (the “JPA Agreement”), between the City and the former Redevelopment Agency of the City of Stockton. The JPA Agreement was entered into pursuant to the Joint Exercise of Powers Act, Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California. The Authority was created for the purpose of facilitating the financing or refinancing public improvement facilities within the City.

THE CITY

The City is a municipal corporation and charter city incorporated in 1850. The City is the county seat of San Joaquin County and is located in California San Joaquin Valley, 78 miles east of the San Francisco Bay Area, 337 miles north of Los Angeles and 40 miles south of Sacramento. The County is bounded by Sacramento County on the north and by Stanislaus County on the south.

Certain economic and demographic information with respect to the City is contained in APPENDIX A. This information concerning the City is presented as general background information only. **The Series 2010A Bonds are secured solely by the 2010 Installment Payments and funds and accounts established under the Indenture, and *not* by the general fund of the City. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS.”**

THE WATER SYSTEM

Overview

The City of Stockton Water Utility (the “Water Utility”) is one of three utilities managed, operated, and maintained by the City of Stockton Municipal Utilities Department (the “Stockton MUD”). The two other utilities are wastewater and stormwater. The Water Utility is comprised of the recently completed Water Project, regional water distribution system and various well sites and reservoirs located throughout the City.

The City operates two independent water systems within the City. One serving an area in the northern area of the City (the “North Water System”) and the other serving the southern area of the City comprised of the Metropolitan Airport and County Hospital/Jail complex area (the “South Water System”).

The City’s Water Enterprise (the “Water System”) commenced service in the northern area of the City in 1954 with 18 customers. Since 1969, the Water System has been operated as an enterprise relying solely on revenues and fees generated from the sale of water and services. The Water System receives no support from the City’s General Fund or other revenues. As of Fiscal Year 2011-12, the Water System served approximately 48,492 active customer connections.

During Fiscal Year 2011-12, the Water System supplied water, based on volume, to approximately 55% of the homes and businesses located within the Stockton Metropolitan Area. The California Water Services Company (“Cal Water”), a private water company, provided water to approximately 42% and San Joaquin County served the remaining approximately 3% of residents and businesses in the Stockton Metropolitan Area.

Facilities

Until 1977, groundwater was the sole source of domestic water for the Stockton area. A surface water supply was established in 1977, when the Stockton East Water District (the “SEWD”), a special district water wholesaler, began operating a treatment plant. The SEWD plant currently treats up to 55,000 acre-feet per year of Calaveras River and Stanislaus River water. Following treatment, the water is distributed among the City, Cal Water, and two County Maintenance Districts in proportion to the total amount of water use that each agency comprises in the Stockton region. The City added the Water Project to its Water System to provide a supplemental source of surface water to the existing SEWD supply. The City’s previous allocation of the SEWD supply accounted for approximately 56% of the SEWD plant output. Due to the operation of the new Water Project, the City Council approved a Supply and Cost Allocation Agreement to reduce the amount of treated surface water purchased from the SEWD by the City from approximately 27,000 acre-feet to 17,500 acre-feet per year, which accounts for approximately 37.6% of the SEWD plant output.

The City purchases approximately 17,500 acre-feet of treated water for the Water System from SEWD pursuant to a take-or-pay contract, pumps water from its own wells and pumps and treats water from the new Water Project. City water is stored in eight ground-level enclosed storage tanks with capacities ranging from 3.0 to 4.0 million gallons.

Water Distribution. The City’s water distribution facilities include approximately more than 600 miles of water lines. All service connections are metered. Included in the Water System are over 3,900 fire hydrants that are maintained by the Water System. Water management includes a substantial water conservation program with both seasonal and year-round restrictions.

Power Supply. Power for the Water System is supplied by Pacific Gas & Electric and five natural gas powered pumps. The Water System also operates four diesel-powered and five propane/natural gas-powered back-up generators located throughout the City.

Water Quality Testing. In accordance with Environmental Protection Agency and State Department of Public Health requirements, the Water System conducts or commissions, extensive tests and studies on the quality of water supplied to its customers to ensure that tap water is safe to drink. These requirements, which limit the amount of certain contaminants, include testing for the presence of more than 30 inorganic, biological, radioactive, volatile organic and synthetic organic constituents.

Water Supply Demand Measures and Conservation Efforts. In June 2011, the City Council adopted the 2010 City of Stockton Urban Water Management Plan as required by the Urban Water Management Planning Act of 1983, as amended. The City encourages customers to assist in assuring an adequate water supply by using water efficiently. The City is also a signatory to the California Urban Water Conservation Council’s Memorandum of Understanding whereby the City has committed to implement best management practices to conserve water in urban areas. The City continues to develop and implement water saving programs through public outreach and school education programs, water use surveys, distribution of water conservation publications and water saving devices, incentives and rebates, and landscape conservation programs. The City’s current water conservation ordinance identifies a number of seasonal and year-round prohibited water wasting activities, including but not limited to irrigation activities between May and October.

Service Area

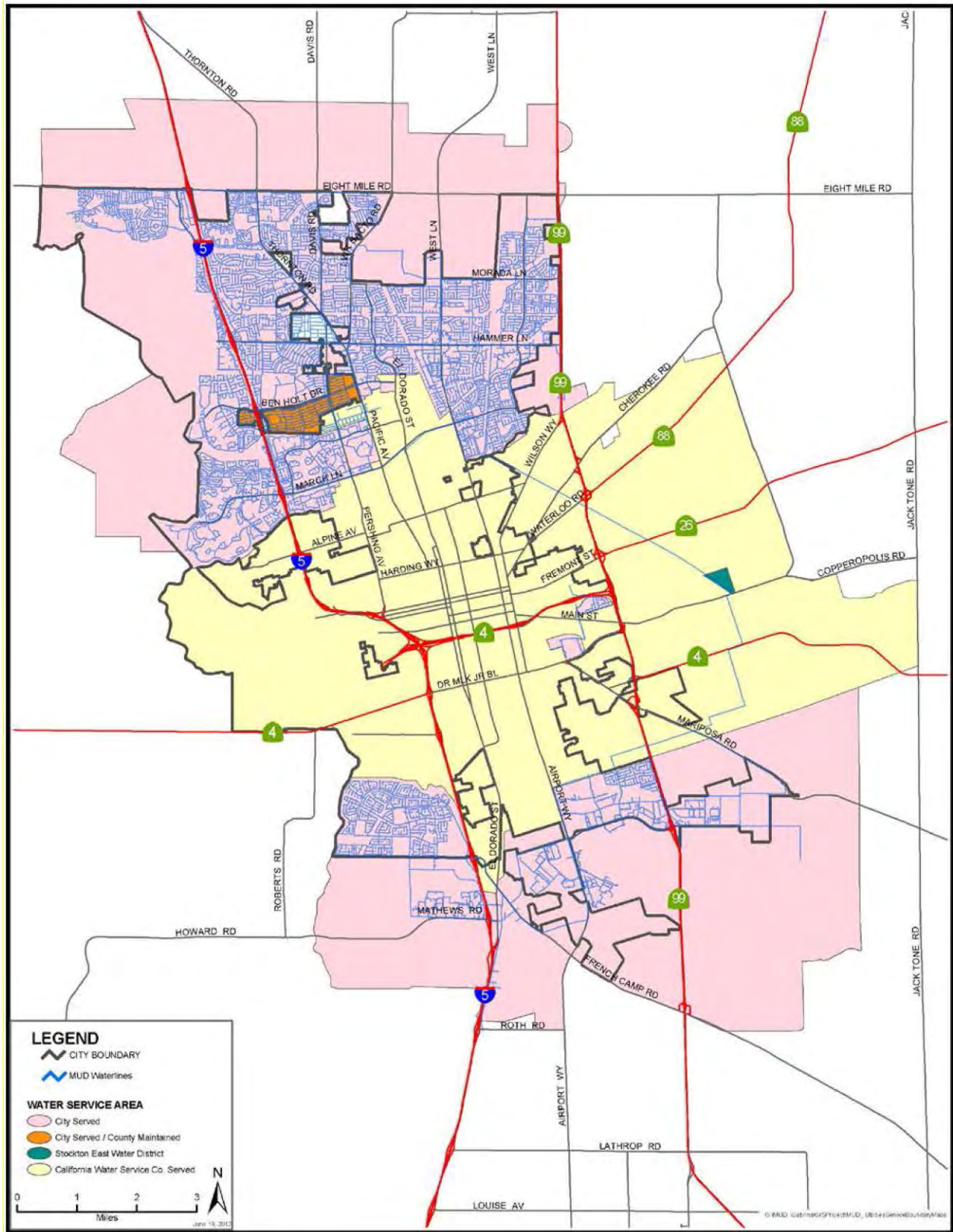
Water service to the incorporated areas of the City is primarily provided by either the Water System or Cal Water. The County and the SEWD also provide water service to some smaller areas within the Stockton Metropolitan Area.

In addition to providing water service to the North Water System, the City has provided water service to the South Water System since 1984. In 1989, the City took over the operation and maintenance of the County's Southern Water System serving the airport and the hospital/jail complex in South Stockton and also agreed to supply water to the Lincoln Village and Colonial Heights Maintenance Districts under a long-term service agreement with the Districts that expire in 2035.

The City also provides water service to the Diamond Walnut Plant in South Central Stockton, an area which is completely surrounded by the Cal Water service area.

The following is a map of the Water System Service Area.

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Water Supply

Overview. All urban water suppliers in the State are required to prepare an Urban Water Management Plan (a “UWMP”) to provide information about an urban water supplier’s water supplies, water supply reliability, water conservation, water shortage contingencies, and recycled water usage. The UWMP is required to be updated at least once every five years on or before December 31, in years ending in five and zero. As defined in Section 10617 of the State Water Code, an “urban water supplier” is a supplier, either publicly or privately owned, that provides water to more than 3,000 customers or supplies more than 3,000 acre-feet of water annually on a wholesale or retail basis or both. As an urban water supplier, the current UWMP (the “2010 UWMP”) for the Stockton MUD was adopted by City Council on June 21, 2011.

The Water System has four current major supply sources: (i) water produced by the Water System’s own wells; (ii) the water purchased from the Irrigation District pursuant to the terms of the WID Contract; (iii) the water pumped from the San Joaquin River (Delta) under the City’s Water Right Permit and treated as part of the Water Project; and (iv) treated surface water which is purchased through a long-term contract from the SEWD, which expires on April 1, 2035. The Water System has been receiving treated surface water from SEWD since 1977. Use of this water source, in addition to water provided under the WID Contract and water pumped from the Delta and treated by the City, has enabled the City to reduce the extraction of groundwater. The quality of the surface water delivered to the City from SEWD and the surface water treated by the City meets all requirements set by the State and federal government. From April 1, 2012 to March 31, 2013, the SEWD water treatment plant delivered 42,872 acre-feet of water, with 18,410 acre-feet (or 43%) going to the City. Pursuant to the SEWD contract, water is allocated pro rata between the Water System, Cal Water, and the County based on the prior year’s water demand. From May 2012 to May 2013 (the first complete year of operation), the City produced approximately 15,000 acre-feet of water from the Water Project.

A third consecutive year of dry conditions in the northern Sierra Nevada lead to the Governor of the State of California issuing a proclamation on February 27, 2009 declaring a Statewide drought emergency. The proclamation requests that all urban water users in the State increase water conservation and directs that various State agencies take action to address impacts of the drought. The State Department of Water Resources (the “DWR”) issued a report on drought conditions on March 30, 2009, pursuant to the proclamation, concluding that increased spring precipitation did not improve the State’s overall water supply situation enough to make up for two previous dry years and low reservoir conditions. The report listed DWR’s anticipated actions to address the drought, including expediting distribution of State bond funds for water management projects; planning, proposing legislation and providing public education for Statewide water conservation; finalizing plumbing standards for use of recycled water inside buildings; and preparing a contingency plan in case of drought continuing in 2010. The California Drought Contingency Plan was completed in November 2010 and contains strategies and actions State agencies may take to prepare for, respond to, and recover from droughts.

In accordance with the Water Conservation Ordinance adopted by the City Council in 1988 and the Water Shortage Emergency Ordinance adopted by the City Council in 1991 into the Stockton Municipal Code and the 2010 UWMP, in the event of a water shortage emergency, the City developed a five stage rationing plan, which range from voluntary (Stage 1, setting a 10% reduction goal) to mandatory (Stage 5, setting a 50% or greater reduction goal) rationing, depending on the causes, severity, and anticipated duration of the water supply shortage. The City was last in a mandatory reduction stage from 1990 through 1992. The Water System is currently operating under a Stage 1 (voluntary) water shortage emergency and customers have been requested to adjust either interior or outdoor water use, in order to meet the voluntary 10% water reduction goal.

In order to mitigate the financial impacts of a water shortage, the City established a practice of maintaining a contingency reserve as part of its Water Fund. The goal is to maintain a fund reserve equivalent to six months of minimum operating expenses, using a three-year trend to project the actual amount. This contingency reserve will be used to stabilize rates during periods of water shortage or disasters affecting the water supply. By utilizing this method, the City does not anticipate needing to increase rates as much or as often during a prolonged or severe shortage.

SB No. 7. On November 10, 2009, the Governor signed into law Senate Bill No. 7 (“SB 7”) which SB 7 requires, among other things, that the State achieve a 20% reduction in urban per capita water use by December 31, 2020, by reducing per capita water use by at least 10% over baseline use, on or before December 31, 2015. SB 7 also requires each urban retail water supplier (including the City) to develop urban water use targets and an interim water use target in accordance with specified requirements. The City contracted with West Yost Associates to determine interim and final per capita water use targets, identify the appropriate base year, evaluate and recommend an appropriate method for developing the urban water use targets and assist with the public hearing process required to adopt the baseline method to be used. As part of the City Council’s adoption of the 2010 UWMP in July 2011, the City identified 195 gallons per capita per day (gpcd) as the City’s baseline water use, and adopted Method 3 (95% of State Hydrologic Region Target) for determining both the 2015 interim and 2020 compliance water use targets of 180 and 165 gpcd, respectively.

Following the completion of the Water Project, the City expects to reduce its purchase of treated surface water from SEWD by more than one-third and to reduce groundwater pumping by more than two-thirds. See “THE WATER PROJECT.”

Sources. The Water System has four current major supply sources: (i) water produced by the Water System’s own wells; (ii) the water purchased from the Irrigation District pursuant to the terms of the WID Contract; (iii) the water pumped from the San Joaquin River (Delta) under the City’s Water Right Permit and treated as part of the Water Project; and (iv) treated surface water which is purchased through a long-term contract from the SEWD, which expires on April 1, 2035.

Groundwater. The groundwater basin underlying San Joaquin County is part of the contiguous Central Valley aquifer system, which supplies groundwater to agricultural, domestic, and industrial water users from Redding to Bakersfield. Groundwater is managed for long term sustainability and use through conjunctive use with the surface water supplies described below. Conjunctive use implies that groundwater will be preserved as the last source of supply that is used if surface water supplies are insufficient to meet demands. The City has undertaken careful planning and study to insure that groundwater extraction yields, on average, do not pose any risk of salinity intrusion or undue risk to private domestic or agricultural wells within the Service Area. In wet years, when surface water is more plentiful, the groundwater basin is allowed to recover through in-lieu recharge (i.e., allowing natural recharge to occur from streams and rivers) and not pumping, and in the dry years, groundwater is extracted to meet the shortfall of surface water supplies.

Historically, the groundwater pumping in the area in Eastern San Joaquin County has exceeded the rate of recharge, lowering the groundwater level. The State of California has listed the Eastern San Joaquin Basin as in “a critical condition of overdraft.” Although the overdraft situation has improved primarily in the urban area due to less groundwater being pumped in recent years, the overdraft of the groundwater supply has caused a deterioration of the water quality in some areas due to the intrusion of poor quality water from the California Delta, primarily in areas south and west of the City.

Purchased Water. The Water System has been receiving treated surface water from SEWD since 1977. Use of this water source has enabled the City to reduce the extraction of groundwater. The quality of the surface water delivered to the City from SEWD meets all requirements set by the State and federal government. From April 1, 2012 to March 31, 2013, the SEWD water treatment plant delivered 42,874 acre-feet of water, with

18,410 acre-feet (or 43%) going to the City. Pursuant to the SEWD contract, water is allocated pro rata between the Water System, Cal Water, and the County based on the prior year's water demand.

Delta Water. On March 8, 2006, the City of Stockton received its first Water Rights Permit (Permit No. 21176) from the State Water Resources Control Board to divert up to 33,600 acre-feet per year from the Delta. In compliance with Water Code Section 1485, the City is authorized to divert from the Delta an amount less than or equal to the amount of properly treated effluent discharge from the Regional Wastewater Control Facility to the Delta, based on a 15-day running average. With the start of operations in 2012, this surface water is treated at the City's new Water Treatment Plant as part of the Water Project, meets all requirements set by the State and Federal government, and is distributed to City water customers.

WID Water. Pursuant to the WID Agreement and Amendment, the Irrigation District is required to make available to the City 6,500 acre-feet per annum of surplus Mokelumne River water. The water purchased pursuant to the WID Agreement and Amendment is available to the City from March 1 through July 31 of each year to supplement water sources when pumping from the Delta is restricted. This water is treated at the City's new Water Treatment Plant, meets all requirements set by the State and Federal government, and is distributed to City water customers.

North Water System. The North Water System utilizes both surface and groundwater as sources of supply. Surface water for the North Water System is purchased from the SEWD and provided by the Water Project. Treated water is stored in three sites providing temporary water storage for up to 19 million gallons. In recent years, approximately 72% of the North Water System water has been purchased from SEWD. Groundwater for the North Water System is obtained from 26 City wells that provide approximately 11.1 mgd.

South Water System. The South Water System uses both surface water purchased from the SEWD and groundwater as sources of supply. Approximately 93% of the water for the South Water System is purchased from SEWD. The seven wells in the South Water System provide approximately 14.4 mgd. The City completed the South Stockton Aqueduct in November 2005 to convey surface water directly to the South Water System from SEWD through an underground pipeline thereby reducing reliance on groundwater sources to meet demand.

Diamond Walnut Water System. The Diamond Walnut Water System is supplied by surface water obtained from transferring (or wheeling) SEWD water through the Cal Water System. Three City-owned wells that once supplied water to the Diamond Walnut Water System have been removed from service, abandoned and destroyed. In December 2010, the City completed a second connection with Cal Water, which added supply reliability to the Diamond Walnut Water System.

Total City water production and consumption sources and extractions for the last five fiscal years are set forth below [full results for 2012-13 potentially available after August 31]:

Table 2
City of Stockton Water System
Historical Water Production and Consumption
(in million gallons by Fiscal Year)

Fiscal Year	Groundwater Production	SEWD North Water System	SEWD South Water System	Diamond Walnut Water System	Delta Water Treatment Plant ⁽¹⁾	Total Production	Total Consumption
2008-09	2,620	6,216	2,101	68	N/A	11,005	10,284
2009-10	2,047	7,084	2,255	81	N/A	11,467	10,017
2010-11	2,245	6,984	2,221	76	N/A	11,526	10,537
2011-12	1,576	7,855	2,478	80	327	12,316	10,459
2012-13 ⁽²⁾	1,225	4,048	1,989	89	4,758	12,109	10,878

⁽¹⁾ Delta Water Treatment Plant commenced operation in May 2012. Includes WID and Delta water.

⁽²⁾ Includes actual production data through May, 2013 and estimated production data for June, 2013 based on June, 2012 actual production. Includes actual consumption data through April, 2013 and estimated consumption data for May and June, 2013 based on May and June, 2012 actual consumption.

Source: City of Stockton, Municipal Utilities Department.

Water Treatment and Regulatory Matters

Public drinking water supplies in the State, including the Water System, are subject to increasingly stringent State and federal water quality standards. The City's drinking water is sampled and tested on an ongoing basis from all parts of the Water System to ensure that it meets or surpasses all primary (health related) and secondary (aesthetic) regulatory standards established by the United States Environmental Protection Agency ("EPA") and the State of California Department of Public Health (the "Department").

State Requirements. The City is responsible for complying with various State requirements, including: operational requirements; design and construction standards for dams and reservoirs, distribution systems and pipelines; requirements for control of cryptosporidium and other microbial contaminants, and other water safety issues; and training and other requirements for water treatment and distribution operators. Failure to meet these standards may subject the City to civil or criminal sanctions. The Department is the regulatory agency responsible for ensuring the water systems meet the federal regulations outlined above, as well as additional or stricter State regulations.

In accordance with California Code of Regulations, Title 22, the Department requires water providers to conduct periodic source water assessment (an "SWA") to protect the quality of future water supplies. The SWA describes the source of the drinking water, the type of polluting activities that may threaten source water quality and evaluates the vulnerability of the water to those threats.

Federal Requirements. The Water System is subject to regulations imposed by the federal Safe Drinking Water Act, as amended (the "Act"), which is administered by the EPA. In 1986, the United States Congress passed amendments to the Act, wherein 83 potential contaminants of potable water were to be regulated by no later than 1989, with 25 new contaminants to be added, prioritized and regulated every three years thereafter. In 1996, the Act was amended again, reducing the number to five new regulated contaminants every five years. The 1996 amendments also require that each regulation to be reviewed every six years to determine if a revision is warranted. In addition to setting maximum levels for contaminants, the Act also allows regulations to require water treatment plants to meet defined "Treatment Techniques."

Permits and Other Regulations. The City operates under a State of California Department of Health Service Water Supply Permit No. 390012 for its water distribution system. The permit does not have an expiration date, and the permit is revised, modified or re-issued as necessary. The City is in compliance with the permit. In addition, the City operates under an interim approval to operate letter dated May 25, 2012 for the new Water Treatment Plant from the California Department of Public Health until such time as a domestic water supply permit is completed and issued to the City by the State.

The City routinely monitors its water system for the presence of drinking water contaminants. Testing results from April 18, 2012 to January 17, 2013, show that the City's water system exceeded the standard or maximum contaminant level for Total Trihalomethane ("TTHM"). The maximum level for TTHM is 80 parts per billion, which is the equivalent of a teaspoon of water in an Olympic-sized swimming pool. It is determined by the Locational Running Annual Average ("LRAA") of samples collected at each sampling location, quarterly, over past 12 months. The LRAA level of TTHM collected at 4 of 19 sample locations ranged from 82 parts per billion to 96 parts per billion. TTHMs are four organic chemicals which form when disinfectants react with natural organic matter in the water. The City is in the process of constructing a system to prevent the formation of disinfection by-products in its Water Project and SEWD supply to the North Water System through the use of chloramines. The total estimated cost of these current construction efforts is approximately \$7.4 million and is expected to be completed by Summer 2014. The City's capital improvement planning efforts include an additional \$4.3 million in funding to complete the North Water System chloramine conversion over the next few years. In addition, the City is working with SEWD to modify its treatment process to reduce the potential for disinfection by-products and using its own groundwater sources (free of organic matter) during times when the source waters are high in organic content.

Capital Improvement Program

The City maintains a five-year capital plan (the "CIP") for the budgeting and planning of public projects throughout the City. The adoption of the Citywide CIP is governed by the City Charter. The CIP is updated annually by the City Council based upon available funding sources, anticipated capital needs and project priority.

In March 2000, the City's voters approved "Measure U" which made changes to the City Charter that relate to the CIP. Measure U changed the timeline for City Staff to submit the CIP to the City's Planning Committee and the City Council for approval.

The most recent proposed CIP for 2013-18 includes approximately \$1.8 million in Water System projects budgeted for Fiscal Year 2013-14, including funding for improvements and expansion of the water distribution system, and improvements to reservoirs and other sites. For a description of the Water Project, see "THE WATER PROJECT."

Water System Users

Customer Base. As of Fiscal Year 2011-12, the Water System had 48,492 active connections made up primarily of residential customers. Table 3 sets forth a five-year history of Water System users. [results for 2012-13 potentially available after August 31]

Table 3
City of Stockton
Water System
Customer Base by Type of Account and Number of Connections
(Fiscal Years)

	2007-08	2008-09	2009-10	2010-11	2011-12
Residential	43,665	44,074	44,736	44,896	46,166
Commercial/Industrial	1,388	1,412	1,414	1,498	1,445
Landscape Irrigation	848	865	873	928	881
Total	45,901	46,351	47,023	47,322	48,492

Source: City of Stockton, Municipal Utilities Department.

Largest Users by Flow. The table below shows the 10 largest users of the Water System based on consumption for Fiscal Year 2011-12 [results for 2012-13 potentially available after August 31].

Table 4
City of Stockton Water System
Ten Largest Accounts by Annual Consumption
Fiscal Year 2011-12
(in ccf)[†]

Name	Type of Business	Fiscal Year 2011-12 Consumption	
		Amount	Percent
Runway Drive, LP	Bottled Water Manufacturer	219,602	1.69%
San Joaquin County Hospital	County Hospital	85,716	0.66
Sodexo, Inc.	Commercial Laundry	70,073	0.54
San Joaquin County Sheriff	Government/ Law Enforcement	65,787	0.51
Lodi Unified School District	School District	50,893	0.39
Cintas Corporation	Uniform Supply	41,036	0.32
Shadow Lake Mobile Home Park	Mobile Home Park	33,638	0.26
City of Stockton Maintenance District B3	City Park	32,201	0.25
Lodi Unified School District	School District	30,600	0.24
Kaiser Permanente	Medical Facility	26,061	0.20
SUBTOTAL		655,607	5.05%
All Others	Various	12,333,332	94.95%
TOTAL		12,988,939	100%

[†] One ccf is equal to 748 gallons.
Source: City of Stockton, Utility Billing.

Largest Users by Revenue. The table below shows the 10 largest users of the Water System based on revenue for Fiscal Year 2011-12 [results for 2012-13 potentially available after August 31].

Table 5
City of Stockton Water System
Ten Largest Accounts by Revenue
Fiscal Year 2011-12

Name	Type of Business	Fiscal Year 2011-12 Revenue	
		Amount	Percent
Runway Drive LP	Manufacturer - Bottled Water	\$ 305,889	0.91%
San Joaquin County Hospital	County Hospital	140,494	0.42
Sodexo, Inc.	Commercial Laundry	114,741	0.34
San Joaquin County Sheriff	Government/Law Enforcement	110,150	0.33
Lodi Unified School District	School District	71,970	0.21
Cintas Corporation	Uniform Supply	58,299	0.17
Shadow Lake Mobile Homes	Mobile Home Park	54,270	0.16
City of Stockton Maintenance District B3	City Park	48,479	0.14
Lodi Unified School District	School District	44,186	0.13
Kaiser Permanente	Medical Facility	38,373	0.11
SUBTOTAL		986,851	2.93%
All Others	Various	32,664,885	97.07%
TOTAL		\$ 33,651,736	100%

Source: City of Stockton, Utility Billing.

Outstanding Existing Parity Obligations

The table below summarizes the outstanding Existing Parity Lien Obligations as of July 1, 2013.

Table 6
City of Stockton Water System
Outstanding Existing Parity Lien Obligations
(As of July 1, 2013)

Obligation	Total Amount Outstanding	Final Maturity Date
Federal Drought Relief Act Loan	\$ 334,633	July 1, 2017
California Statewide Communities Development Authority	8,760,000	October 1, 2022
Water Revenue Bonds, Series 2005	24,230,000	October 1, 2035

Organization and Management

Overview. The Water System is operated under the management and control of the City Council. Current day-to-day management is provided by Dr. Mel Lytle, the Director of Stockton MUD and Robert Granberg, Deputy Director of Water Resources, under the general supervision of Bob Deis, the City Manager.

As part of the Stockton MUD, the Water System, with 50 full-time equivalents, is managed by Dr. Lytle. The organization of the Water System is presented in the organizational chart on the following page. The Water System also receives services from other departments within Stockton MUD, including engineering, administration, construction, development and environmental control.

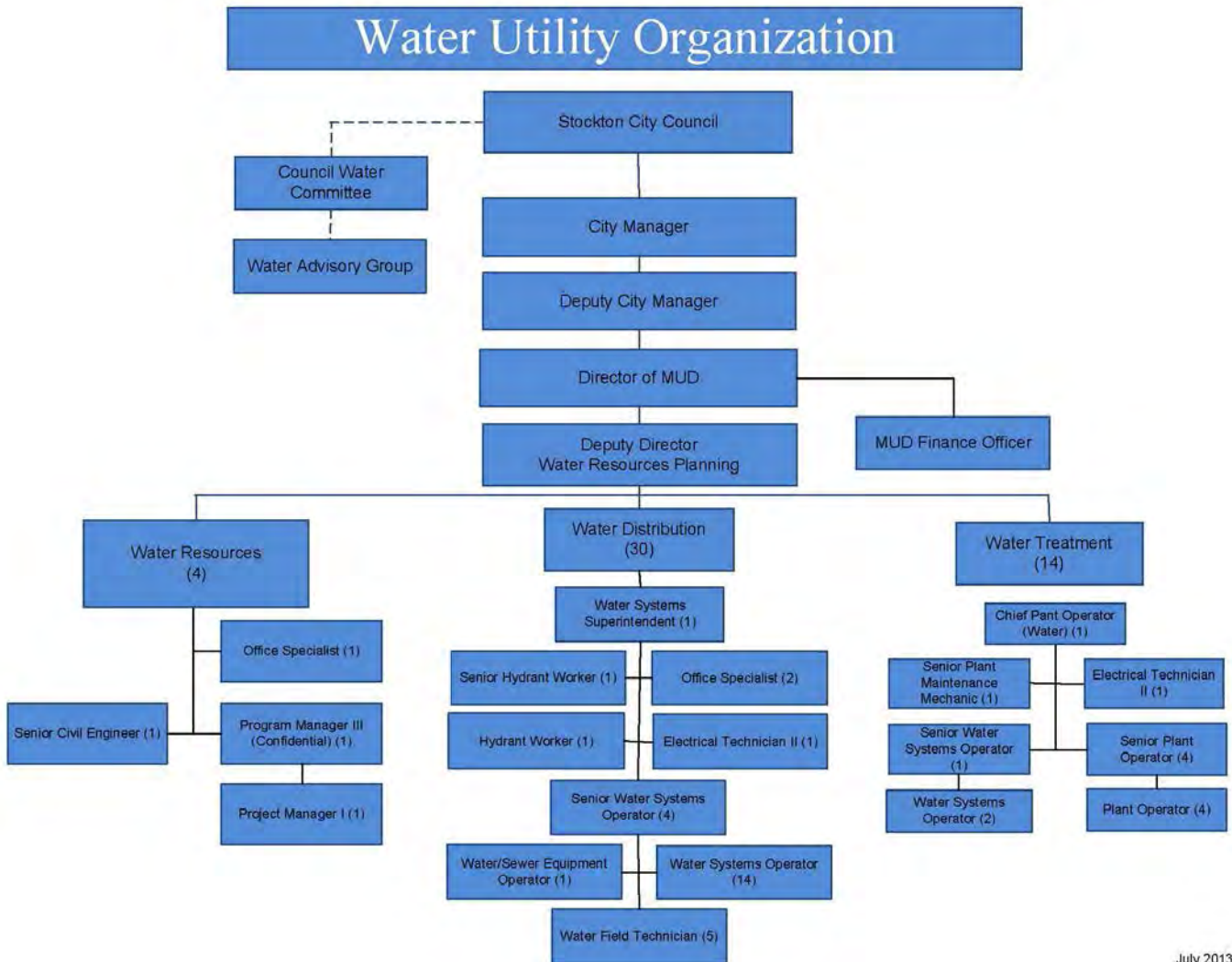
The Water System reports to the City Manager and receives guidance from the Water Advisory Group, the City Council Water Committee, the City Council, and the Mayor.

Water Advisory Group. In 2009, a Water Advisory Group (the “WAG”) was established by Resolution No. 09-0279 of the City Council to advise and make recommendations to the Council Water Committee (described below) on current and future issues impacting the Water, Wastewater and Stormwater Utilities of the City, including review of Stockton MUD monthly operations and maintenance reports. The Water Advisory Group is comprised of seven members who reside within one of the service areas of the City’s three Utilities. One candidate is nominated by each Council member and the Mayor and the candidates are ratified by the full City Council.

Council Water Committee. The Council Water Committee is one of the nine standing committees of the City Council. This Committee is comprised of three members of the City Council and one alternate appointed by the Mayor and ratified by the full City Council. The Council Water Committee is responsible for all issues related to water, including, but not limited to, water flow availability, projects, regulations, conservation reclamation, and recommendations made by the WAG.

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Water System Organizational Chart



July 2013

The Water System acts within the legal parameters of the City Charter, the Municipal Code and in accordance with the laws of the State. The Water System is regulated at the State level by the California Department of Public Health. At the federal level the Water System is regulated by the Environmental Protection Agency. See also “– Water Treatment and Regulatory Matters.”

The Water Utility receives administrative and overhead support services from the City and is charged for these services through an interdepartmental cost allocation system.

Brief resumes of the management of the Water System are set forth below:

C. Mel Lytle, Ph.D., Director of Municipal Utilities. Dr. Lytle has been the Municipal Utilities Director since March 1, 2012. He is responsible for the general management of the Water System and reports to the City Manager of the City.

Prior to becoming Director of Municipal Utilities, Dr. Lytle was the County Water Resources Coordinator for San Joaquin County. He provided senior management level direction in the development of consensus based water resources planning, project development, design and implementation together with surface and groundwater quality investigations to fulfill regional water management program directives established by the County Board of Supervisors and other local and regional authorities. In addition, he was responsible for water right investigations, expert witness and legislative advocacy for County interests at local, State and Federal levels.

Dr. Lytle has worked in the water and natural resources field in both the United States and Latin America for eighteen (18) years. After graduating with his Ph.D. from Brigham Young University in 1994, Dr. Lytle completed a three (3) year Post-Doctoral Fellowship at the University of California Berkeley. Since that time, his professional experience has advanced to the executive management level while working in both private consulting and public sectors. Work experience has involved water, waste and stormwater utilities management, water right investigations; water supply development; surface and groundwater resources planning; conjunctive use and groundwater recharge; lake, wetland and watershed assessment, restoration and management; passive wastewater treatment and water quality. Dr. Lytle has broad teaching experience, a solid publication history and is a frequent invited lecturer at local, national, and international workshops and symposia.

Dr. Lytle has been a member of the Association of California Water Agencies Committee on Local Government, County Engineers Association of California, National Ground Water Association, and past Secretary of the San Joaquin County Advisory Water Commission.

Robert Granberg, Deputy Director of Water Resources. Mr. Granberg is a licensed Civil Engineer in the state of California having graduated from Washington State University in 1989 with a Bachelor of Science degree in Civil Engineering. He spent the first eight (8) years of his professional career in Los Angeles with four (4) years in Public Works and four (4) years with the Department of Airports. After serving as construction manager for the City of Salem Oregon, he came to the Stockton Municipal Utilities Department in 1998 as a project manager overseeing construction of wastewater treatment plant facilities and other utility projects, most notably the Southern Industrial Trunk Sewer Replacement project. Mr. Granberg moved to the City of Modesto where he gained experience in development prior to returning in May of 2004 as Deputy Director of Water Resources. Mr. Granberg’s main focus for the Department is the development and management of water supplies for the City of Stockton including the Water Project.

Employee Benefits

Pension Plans. Substantially all full-time City employees, including employees of the Water System, are eligible to participate in retirement benefit plans through a contract with the California Public Employees’ Retirement System (“PERS”), a multiple-employer public sector employee defined benefit pension plan. PERS

provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to PERS members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State. PERS is a contributory plan deriving funds from employee contributions as well as from employer contributions and earnings from investments.

PERS maintains a Miscellaneous Plan (the “Miscellaneous Plan”) with respect to non-safety employees on behalf of the City. The City contributes to PERS amounts equal to the recommended rates for the Miscellaneous Plan multiplied by the covered payroll of those current employees of the City, including the Water System, who are eligible under PERS. As of June 30, 2012, there were a total of 1,293 full-time equivalent City employees participating in the Miscellaneous Plan of which 183 (or approximately 14.2%) were employed by the Water System.

The City also provides a Retirement Enhancement Plan (the “REP”) to cover retirement benefits for specified Utility Department employees for the period of time they worked under a private contract with OMI-Thames Water Stockton between 2003 and 2008.

California Public Employees’ Retirement System. *The following information concerning the California Public Employees’ Retirement System is excerpted from publicly available sources, which the City believes to be accurate. PERS is not obligated in any manner for payment of debt service on the Series 2010A Bonds and the assets of PERS are not available for such payment. PERS should be contacted directly at California Public Employees’ Retirement System, Lincoln Plaza Complex, 400 Q Street, Sacramento, California 95814, Telephone: 888-225 7377 for other information, including information relating to its financial position and investments.*

Set forth below is information with respect to the Miscellaneous Plan for the entire City. PERS does not prepare nor are separate reports available for the Water System. The City can only allocate costs of the Miscellaneous Plan to the Water System to the extent such costs are allocable to employees of the Water System.

The City contributes to PERS, an agent, multiple-employer, public employee, defined benefit, pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS’ comprehensive annual financial report may be obtained from their executive office: Lincoln Plaza North, 400 Q Street, Sacramento, California 95814.

The staff actuaries at PERS release actuarial valuations of the Miscellaneous Plan in the later fall of each calendar year based on data through June 30 of the preceding Fiscal Year. The actuarial valuation expresses the City’s required contribution rates in percentages of payroll, which percentages the City contributes in the Fiscal Year immediately following the Fiscal Year in which the actuarial valuation is prepared (thus, the City’s contribution rates derived from the actuarial valuation as of June 30, 2010 were effective during the City’s Fiscal Year 2012-13). PERS rules require the City to implement the actuary’s recommended rates.

In calculating the annual actuarially required contribution rates, the PERS actuary calculates on the basis of certain assumptions the actuarial present value of benefits that PERS will fund under the Miscellaneous Plan, which includes two components, the normal cost and the Unfunded Accrued Actuarial Liability (the “UAAL”). The normal cost represents the actuarial present value of benefits that PERS will fund under the Miscellaneous Plan that are attributed to the current year, and the UAAL represents the actuarial present value of benefits that PERS will fund that are attributed to past years. The UAAL represents an estimate of the actuarial shortfall between assets on deposit at PERS and the present value of the benefits earned through the valuation date by retirees and active employees. The UAAL is based on several assumptions such as, among others, the rate of investment return, life expectancy, age of retirement, inflation, salary increases and occurrences of disabilities. In

addition, the UAAL includes certain actuarial adjustments such as, among others, the actuarial practice of smoothing losses and gains over multiple years (which is described in more detail below). As a result, the UAAL is an estimate of the unfunded actuarial present value of the benefits that the City will fund under the Miscellaneous Plan to retirees and active employees upon their retirement and is not as a fixed or hard expression of the liability the City owes to PERS under the Miscellaneous Plan.

PERS determines the actuarial methods and assumptions used with respect to assets administered by PERS (including the City's plan assets) and makes the investment decisions with respect to such assets. For a description of such actuarial methods and assumptions (including the smoothing conventions used by PERS when setting employer contribution rates) and investments, see the comprehensive annual financial report of PERS (the City's Miscellaneous Plan is part of the Public Employees' Retirement Fund of PERS) available on its website at www.calpers.ca.gov. The City cannot guarantee the accuracy of such information. Actuarial assessments are "forward-looking" information that reflect the judgment of the fiduciaries of the pension plans, and are based upon a variety of assumptions, one or more of which may prove to be inaccurate or be changed in the future. Actuarial assessments will change with the future experience of the pension plans.

The PERS Board of Administration recently approved a plan to replace the current 15-year asset-smoothing policy with a 5-year direct-rate smoothing process and replace the current 30-year rolling amortization of unfunded liabilities with a 30-year fixed amortization period. The approach provides a single measure of funded status and unfunded liabilities, less volatility in extreme years, a faster path to full funding, and more transparency to employers about future contribution rates. These changes will accelerate the repayment of unfunded liabilities (including 2008-09 market losses) of PERS participants' plans in the near term. The new methods will be used to set contribution rates for the first time for fiscal year 2015-16, and will be reflected in the June 30, 2013 valuation. These changes are expected to increase (perhaps significantly) the annual contribution rates of PERS participants (including the City) in the near term but result in lower contribution rates in the long term.

Funding Status. An actuarial valuation of assets differs from a market valuation of assets in that an actuarial valuation reflects so-called smoothing adjustments which smooth the impact of gains and losses over multiple years. As of June 30, 2011, the most recent valuation date, the Miscellaneous Plan was approximately 90.4% funded on an actuarial value of assets basis and approximately 79.3% funded on a market value of assets basis. The actuarial accrued liability for benefits was \$568,852,600 and the actuarial value of assets was \$513,963,229, resulting in unfunded actuarial accrued liabilities (UAAL) of \$54,889,371. The covered payroll (annual payroll of active employees covered by the plan) was \$53,699,986 and the percentage of the UAAL to covered payroll was 102.2%.

Table 7
City of Stockton PERS Miscellaneous Plan
Schedule of Funding Progress

Valuation Date	Accrued Actuarial Liability (a)	Market Value of Assets (MVA)	Actuarial Value of Assets (AVA) (b)	Unfunded Liability (UL) (a)-(b)	Funded Ratios		Annual Covered Payroll (c)	UL as % of Payroll [(a)-(b)]/(c)
					(AVA) (b)/(a)	Market Value		
06/30/07	\$453,621,297	\$500,599,835	\$434,989,302	\$18,631,995	95.9%	110.4%	\$57,119,972	32.6%
06/30/08	491,467,308	467,269,585	460,950,390	30,516,918	93.8	95.1	66,743,768	45.7
06/30/09	535,150,533	345,912,268	478,673,431	56,477,102	89.4	64.6	62,265,277	90.7
06/30/10	548,129,809	383,364,117	495,325,729	52,804,080	90.4	69.9	56,256,198	93.9
06/30/11	568,852,600	450,853,223	513,963,229	54,889,371	90.4	79.3	53,699,986	102.2

Source: City of Stockton.

Funding Policy. Miscellaneous Plan participants are required to contribute 7% of their annual covered salary. As part of the City employees' benefit package, prior to July 1, 2011 the City made the contributions required of City employees on their behalf and for their account. The City, as employer, is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the City are established and may be amended by PERS. Total employer contributions based on actuarially determined rates amounted to \$8,226,273 for Miscellaneous Plan employees for the year ended June 30, 2010, \$7,484,660 for Miscellaneous Plan employees for the year ended June 30, 2011 and \$7,801,222 for Miscellaneous Plan employees for the year ended June 30, 2012.

Annual Pension Cost. For Fiscal Year 2011-12, the City's total Miscellaneous Plan annual pension costs were \$11,097,096. The annual pension costs were more than the City's required and actual contributions in the amount of \$7,801,222 due to positive interest earnings on the net pension asset offset by a negative adjustment to the annual required contribution. The required contribution rates were determined as part of the June 30, 2010 actuarial valuations using the entry age normal actuarial cost method with contributions determined as a percent of pay. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses); (b) projected salary increases that vary depending on age, service, and type of employment from 3.55% to 14.45%; (c) inflation of 3.00%; and (d) payroll growth of 3.25%. The actuarial value of the Miscellaneous Plan's assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 15-year period. The City's CalPERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Pension Asset. The City prepaid its Annual Required Contributions (ARC) with proceeds from the 2007 Taxable Pension Obligation Bonds Series A and Series B. This prepaid pension asset was determined in accordance with the provisions of GASB Statement No. 27 and represents contributions in excess of Annual Required Contributions. The pension asset is being amortized over a 30-year period. The pension asset balance at June 30, 2012 was \$30,516,605 for the Miscellaneous Plan.

Table 8
City of Stockton PERS Miscellaneous Plan
Three-Year Trend Information
(\$ in thousands)

Fiscal Year	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Pension Asset
6/30/2012	\$11,097	\$7,801	71%	\$30,517
6/30/2011	9,756	7,485	77	33,812
6/30/2010	7,602	8,226	108	36,084

Source: City of Stockton.

City of Stockton Retirement Enhancement Plan. In 2003, the City awarded a 20-year Service Contract for Wastewater, Water, and Stormwater Utilities Capital Improvements and Asset Management to OMI/Thames Water Stockton ("Service Contract"). Shortly after entering into the agreement the City was served with a complaint alleging that the City violated the California Environmental Quality Act ("CEQA") by awarding the Service Contract to OMI/Thames Water Stockton ("OMI-Thames") to manage and operate the City's utilities without conducting an environmental review assessing the risks of a public-private partnership. The litigation was settled in 2007 and, in 2008, the City resumed operation and maintenance of the Water System, the Wastewater System and the Stormwater System from OMI/Thames and terminated the Service Contract.

The City has entered into an agreement with Public Agency Retirement Services (a public sector retirement plan administrator specializing in providing public entities customized retirement plans and solutions) to contribute to a supplemental plan for employees joining or re-joining City service after having been employed between 2003 and 2008 by OMI-Thames. OMI-Thames employees did not earn PERS service credit during the period of time OMI-Thames operated the City utilities. Upon retirement, the REP benefits will supplement any PERS retirement for which those particular employees are eligible. Eligibility for REP, other than employment with OMI-Thames between 2003 and 2008, is defined as concurrent retirement with PERS and the City upon attaining age 55 and a minimum of five years of full-time continuous service with the City, with at least one year of continuous City service after March 1, 2008.

Funding Policy. The City is required to make contributions at an actuarially determined rate. The annual level dollar employer contribution for fiscal year 2010-2011 was \$736,445, and for fiscal year 2011-2012 it was \$736,445. The City also made an additional contribution of \$106,078 in fiscal year 2010-2011 that was attributable to fiscal year 2009-2010. As part of the OMI-Thames relinquishment agreement, the City pays for the entire benefit obligation. A level dollar contribution amortized over 20 years is used to determine the City contribution. The contribution requirements of the plan may be amended depending on future actuarial valuations and earnings levels.

Table 9
City of Stockton Retirement Enhancement Plan
Contribution Requirements
(\$ in thousands)

Valuation Date	Accrued Actuarial Liability (1)	Actuarial Value of Assets (2)	Unfunded Liability (1)-(2)	Funded Status (2)/(1)	Annual Covered Payroll (3)	UAAL as % of Payroll [(1)-(2)]/(3)
03/01/08	\$4,845	–	\$4,845	0.0%	\$5,740	84.43%
06/30/10	\$7,079	\$1,643	\$5,436	23.2%	\$5,200	104.54%
06/30/12	\$8,346	\$3,339	\$5,007	40.0%	\$3,971	126.12%

Source: Milliman and Associates.

Annual Pension Cost. For the year ended June 30, 2012, the City's REP annual pension costs were \$736,445. The required contribution rate was determined as part of the March 1, 2008 actuarial valuation, using the entry age normal actuarial cost method with contributions determined as a percentage of pay. The actuarial assumptions included (a) 7.0% investment rate of return (net of administrative expenses); (b) projected salary increases that vary based on years of service from 3.85% to 12.65%; (c) inflation of 3.0%; and (d) payroll growth of 3.0%. The actuarial value of the REPs assets were determined using techniques that smooth the effects of short-term volatility in the market value of investments over time. The City's REPs unfunded actuarial accrued liability is being amortized as a level dollar amount over a 20 year amortization period. Based on the actuarial valuation dated June 30, 2012 (most recent valuation), the remaining amortization period as of June 30, 2012 was 15.67 years.

Funded Status and Funding Progress. The REP began on March 1, 2008. As of June 30, 2012, the most recent actuarial valuation date, the REP was 40.0% funded. The actuarial accrued liability (AAL) for benefits was \$8,346,437 and the actuarial value of plan assets was \$3,338,831, resulting in an unfunded actuarial accrued

liability (UAAL) of \$5,007,606. The covered payroll (annual payroll of active employees covered by the REP) was \$3,970,538 and the percentage of the UAAL to covered payroll was 126.12%.

The scheduled progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Table 10
City of Stockton Retirement Enhancement Plan
Trend Information
(\$ in thousands)

Fiscal Year	Annual Pension Cost (APC)	Actual Contributions	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	\$736	\$736	100%	--
6/30/2011	736	843	114	--
6/30/2010	730	624	85	\$106
6/30/2009	1,248	1,248	100	-

Source: City of Stockton.

Healthcare Insurance Premiums. The City also provides health benefits to certain employees and their dependents for medical, dental and vision care. For Fiscal Years 2009-10, 2010-11 and 2011-12, the City paid premiums in the amount of \$1,081,632, \$1,199,960, and \$1,078,909, respectively for Water Utility employees. For Fiscal Year 2012-13, the amount paid for premiums for Water Utility employees is expected to be \$722,422 and for Fiscal Year 2012-13, the amount paid for premiums for Water Utility employees is budgeted to be \$813,124. The City pays the a portion of the premium for health benefits for a small group of MUD employees who were reinstated to City employment on March 1, 2008, when MUD operations were transferred back to the City. The remainder is paid for by the employee and varies by the number of dependent coverage. Each employee and dependent is covered by a life insurance policy and the employee also is covered by a long-term disability policy.

Post Employment Health Care Benefits. In addition to providing pension benefits through PERS, the City provides certain health care benefits for retired employees under contractual obligations negotiated between the City and all employee bargaining units in the late 1990's and early 2000's. Only retirees who left the City after these dates received lifetime medical benefits for themselves and a dependent. Retirees who had retired earlier either did not receive any medical benefits or received a time limited benefit that has been exhausted.

The City's Retiree Healthcare Plan (the "RHP") is a single-employer defined benefit healthcare plan administered by Delta Healthcare of Stockton. All City management and public safety employees who receive a PERS retirement allowance upon separation directly from the City are eligible for coverage under the RHP at age 50. Other miscellaneous employees who receive PERS retirement allowance and have 15 or more years of service are eligible for coverage at age 50, depending on bargaining unit. Some employees, retired for disability, may qualify at a younger age. Full medical benefits are continued until age 65 or a maximum of 15 years whichever occurs first. Such coverage includes full payment of the premium for the retiree and one dependent. At age 65, eligible retirees are covered under a Medicare Supplemental Plan, which pays secondary to Medicare. Until June 30, 2012, the City paid the entire monthly premium for this retiree medical benefit for eligible retirees and one dependent. Beginning July 1, 2012, the City paid a monthly stipend for certain eligible retirees, based on their years of service. Retirees were required to pay any monthly premium cost that exceeded the City's stipend amount. Beginning July 1, 2013, retirees may continue to participate in a City-sponsored medical plan, but they

will be required to pay the entire monthly premium. As of June 30, 2012, there were 1,058 retirees enrolled under the City's retiree health plan. As of July 31, 2012, the total retiree health plan enrollment decreased to 650 and as of July 1, 2013 the total retiree health plan enrollment decreased further to 221.

Beginning in November of 2012, the City also made a Kaiser Permanente insured plan available to eligible retirees under the age of 65 and offered a Kaiser Permanente Medicare supplemental plan for eligible retirees aged 65 and over. Effective July of 2013, the City's retiree Kaiser Permanente group plans were converted to individual plans and the City's contribution to those plans has ceased.

Set forth below is information with respect to the RHP for the entire City. Separate reports for the Water Utility are not available. The City can only allocate costs of the RHP to the Water System to the extent such costs are allocable to employees of the Water System.

Funding Policy. The contribution requirements are paid by City departments and are based on amounts established in the annual budgets of the City. For Fiscal Year 2011-12, the contributions made by the City were financed on a pay-as-you-go basis. During Fiscal Year 2011-12, expenditures of approximately \$14,327,000 were recognized for payment of post employment health care benefits. Beginning July 1, 2013, retirees will be required to pay the entire cost of their health plan benefits.

Annual OPEB Cost and Net OPEB Obligations. The City's annual other postemployment benefit ("OPEB") cost (expense) is calculated based on the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The annual OPEB cost, percentage of annual OPEB cost contributed to the RHP and the net OPEB obligation for 2009 through 2011 are summarized in Table 11.

Table 11
City of Stockton OPEB Three-Year Trend Information
(\$ in thousands)

Fiscal Year	Annual Pension Cost (APC)	Percentage of Annual OPEB Cost contributed	OPEB Obligation
6/30/2011	\$42,977	30%	\$105,887
6/30/2010	40,891	34	75,854
6/30/2009	34,585	30	48,805

Source: City of Stockton Audited Financial Statements for the Year Ended June 30, 2011.

Funded Status and Funding Progress. As of June 30, 2011, the most recent actuarial valuation date, the actuarial liability for benefits was \$416,737,585 and the actuarial value of plan assets was \$0, resulting in a UAAL of \$416,737,585. The covered payroll (annual payroll of active employees covered by the plan) was \$102,040,120 and the ratio of the UAAL to the covered payroll was 408.41%. As a result of the City's action taken June 26, 2012, drastically reducing its contribution towards retiree medical for current retirees effective July 1, 2012 and then eliminating its contribution towards retiree medical completely effective July 1, 2013, the liability for OPEB reported under GASB Statement 45 is \$0 for both fiscal years ending June 30, 2012 and June 30, 2013. Future retiree medical benefits for active employees were eliminated completely effective July 1, 2012. However, as a result of a tentative settlement of retiree health claims, the Water System may experience a one-time charge of approximately \$225,000 upon confirmation of the City's chapter 9 plan.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2011 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return on the City's pooled investments and an annual healthcare cost trend rate of 9.3% for members who are also covered by Medicare and 9.0% for non-Medicare members. This was reduced by decrements to an ultimate rate of 5.0% after 8 years for both groups. Both rates included a 3.0% inflation assumption and payroll increases of 3.25%. The UAAL is being amortized as a level percentage of projected payroll over 30 years on a closed basis. The remaining amortization period at June 30, 2011 is 26 years.

WATER SYSTEM FINANCES

Rate Setting, Billing and Collection Procedures

Rate Setting Procedure. In accordance with California law, the City Council may, from time to time and at its discretion, fix, alter, change, amend or revise any user fees, connection charges and all other fees related to the Water Utility. No other governmental authority, board, body or commission has jurisdiction over or is required to approve the Water System rates established by the City Council.

Bills for City utility services are issued monthly by the water service provider, with the exception of industrial water customers and commercial and industrial stormwater customers, who are billed monthly on a separate bill by the City. Within the Service Area, customers are billed for all applicable utility services (water, wastewater, storm water, garden refuse and garbage) on a unified bill issued by the City. Cal Water issues a unified bill to customers within its service area that includes charges for their water and the applicable City utility services (wastewater, storm water, garden refuse and garbage).

The unified utility bill is due and payable on the date of billing and becomes delinquent 25 days thereafter. If such bills remain unpaid on the 26th day after billing; utility services may be terminated. If Water Service is terminated due to unpaid delinquent charges, water service is not be restored until the full amount of all delinquent charges and associated service charges and fees, deposits and reconnection charges have been paid in full, or an amortization agreement has been authorized by the City or its authorized agent for billing and collection pursuant to Sections 779 or 10010 of the State Public Utilities Code or other applicable statute or regulation.

Water Rate and Financing Study. In connection with the development and operation of the Water Project and on-going operation, maintenance and improvement of the Water System, the City contracted with HDR Engineering, Inc. to complete the Study. In accordance with the analyses and conclusions reached in the Study, the City adopted significant changes in the rates and charges for water services. The new rate structure maintains a single rate for all customers. However the single rate has been revised to move towards a conservation-based structure, and separate classes of service were developed to permit future rate level and structure adjustment by class of service. In addition the City adopted, in accordance with the Study, a four-year transition plan for the increased rate providing for larger adjustments in the initial years and somewhat lower adjustments in the latter years. See “– Rates, Fee and Charges.” A copy of the Study can be obtained by contacting the City Clerk, City of Stockton, 425 North El Dorado Street, Stockton, California 95202 or viewed online at www.stocktongov.com.

Rates, Fees and Charges

The Water System receives moneys from two primary sources: (i) monthly water service charges and connection fees; and (ii) interest income.

Monthly Water Service Charges. Customers of the Water System are billed monthly water service charges based on a fixed monthly service charge based on meter size and a consumption charge based on water usage. While classified by type of use, all customers are charged according to the same rate schedule.

Connection Fees. One-time charges (“Connection Fees”) are levied by the City to recover costs incurred by the Water System for providing capacity in the Water System required by new users. The collection of such fees is therefore subject to the pace of development in the Service Area. Over the course of the past 15 years, development in the City has produced an adjusted average of approximately 1,550 new equivalent dwelling unit connections annually.

Connection Fees have been in effect in the City since Fiscal Year 1974-75. On July 6, 1988, the City Council adopted an ordinance creating and establishing the authority for imposing and charging public facilities fees (“Public Facilities Fees”). On October 12, 1988, the City Council adopted a resolution establishing and imposing Public Facilities Fees, including Connection Fees, to be paid at the time of issuance of a building permit for development and are used to finance the acquisition, construction and improvement of public facilities needed as a result of new development.

As of July 1, 2012, when combined with the City’s existing water system connection charge of \$2,063 the New Melones Surface Water Supply Fee collected on behalf of the Stockton East Water District of \$3,839 and the new Delta Water Supply Project Surface Water Supply Fee (the “Surface Water Supply Fee”) of \$4,595 (see “–Service Charges”), the cost of connecting a new single family residence for water service is \$10,497.

The historical connection fee revenues received by the City are set forth in the table below.

Table 12
City of Stockton Water System
Historical Connection Fee Revenues
(Fiscal Year Ended June 30)
(\$ in thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
Revenues	\$1,387	\$399	\$353	\$261	\$446
Surface Water Supply Fee ⁽¹⁾	N/A	N/A	487	576	868

⁽¹⁾ The Surface Water Supply Fee took effect in September 2009.

Source: *City of Stockton*.

Interest Income. The Water Utility receives additional income from interest income earned on funds available for use in operations and for application to capital facilities projects.

Service Charges. Each customer’s service is metered. The Water System charges its customers initial connection charges, on-going service charges and quantity charges.

Each water customer is charged a fixed charge and a quantity charge. The table below sets forth water rates since July 1, 2008.

Table 13
City of Stockton Water System
Service Charges
Service Charge per Meter per Month
(As of July 1)

Meter Size	Rate					
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
5/8 inch meter	\$ 13.70	\$ 14.25	\$ 15.00	\$ 16.00	\$ 17.00	\$ 18.00
¾ inch meter	15.90	16.75	17.65	18.80	20.00	21.15
1 inch meter	21.10	22.00	23.15	24.70	26.25	27.80
1 ½ inch meter	30.30	31.75	33.40	35.65	37.90	40.10
2 inch meter	39.10	41.00	43.15	46.05	48.90	51.80
3 inch meter	69.30	72.50	76.30	81.40	86.50	91.60
4 inch meter	99.70	104.25	109.75	117.05	124.35	131.70
6 inch meter	164.00	171.75	180.80	192.85	204.90	216.95
8 inch meter	238.00	249.00	262.10	279.60	297.05	314.55
10 inch meter	297.00	310.75	327.10	348.90	370.70	392.55
12 inch meter	418.00	437.50	460.55	491.25	521.95	552.65
Quantity Rates \$/ccf						
0 – 300 ccf	\$0.78	\$0.82	\$1.02	\$1.21	\$1.40	\$1.58
> 300 ccf	0.66	0.69	1.02	1.21	1.40	1.58

Source: City of Stockton.

On July 7, 2009 the City Council approved a four-year water rate increase plan and the imposition of a new Surface Water Supply Fee. The first year's rate increase took effect on August 6, 2009. Each subsequent annual increase took effect July 1 of every year. The rate increases are summarized in the following table.

Table 14
City of Stockton Water System
Current and Adopted Rates

	Fiscal Year 2009-10 ⁽²⁾	Fiscal Year 2010-11 ⁽²⁾	Fiscal Year 2011-12 ⁽²⁾	Fiscal Year 2012-13 ⁽²⁾
Current Average Monthly Residential Bill ⁽¹⁾	\$38.05	\$43.00	\$48.00	\$52.75
\$ Change per Month	4.90	4.95	5.00	4.75
Cumulative \$ Change per Month	4.90	9.85	14.85	19.60

⁽¹⁾ Average residential bill assumed 3/4" meter and 20 CCF (14,960 gallons) of usage, based on existing rates prior to rate increase.

⁽²⁾ Rates are for Fiscal Years 2009–10 through 2012-13; the Fiscal Year assumes implementation effective July 1st of each Fiscal Year.

Source: City of Stockton

The new Delta Water Supply Project Surface Water Supply Fee (the “Surface Water Supply Fee”) took effect in September 2009. The actual fee amount will depend upon water meter size and time of connection to the Water System. The Surface Water Supply Fee amounts are summarized in the table below, the detailed calculations for which can be found in the City of Stockton DWSP Surface Water Supply Fee Report (HDR Engineering – June 2009):

Table 15
City of Stockton Water System
DWSP Surface Water Supply Fee

Meter Size	Supply Fee Weighting Factor ⁽¹⁾	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12	Fiscal Year 2012-13
¾” Meter	1.00	\$ 4,410	\$ 4,442	\$ 4,482	\$ 4,595
1” Meter	1.67	7,365	7,418	7,486	7,674
1 ½” Meter	4.00	17,640	17,768	17,929	18,381
2” Meter	5.33	23,505	23,676	23,891	24,492
3” Meter	10.67	47,055	47,396	47,827	49,031
4” Meter	16.67	73,515	74,048	74,721	76,602
6” Meter	33.33	146,985	148,052	149,396	153,158
8” Meter	53.33	235,185	236,892	239,043	245,061
10” Meter	–	(2)	(2)	(2)	(2)
12” Meter	–	(3)	(3)	(3)	(3)

⁽¹⁾ Based on City weighting factors associated with maximum continuous flow based on meter size; meters larger than 8” are formula based.

⁽²⁾ For 10” meters, the fee is based on the following formula: (flow rate/30 gpm x ¾” meter fee) plus \$61,907.

⁽³⁾ For 12” meters, the fee is based on the following formula: (flow rate/30 gpm x ¾” meter fee) plus \$86,049.

Source: City of Stockton.

Temporary Service. Charges for water furnished through a temporary service connection is set at double the established rates for similar permanent customers. For unmetered, temporary service of three days or less duration, a minimum rate of 18.00 per day applies.

Backflow Device Testing Charges. The City imposes a fee for testing backflow prevention devices (that protect potable water from backflow of bacterial contamination into the Water System).

Table 16
City of Stockton Water System
Backflow Device Testing Charges
(Fiscal Years)

	2008-09	2009-10	2010-11	2011-12	2012-13
Double check valves (plus parts)	\$67.75	\$67.75	\$69.50	\$71.25	\$71.25
Double check valves 2” and larger and reduce pressure devices (RPD) (plus parts)	67.75	67.75	69.50	71.25	71.25

Private Fire Hydrant and Protection Services. Certain customers of the Water System (generally, large industrial businesses or condominium complexes) are required by the State fire code to maintain private fire hydrants specifically for the benefit of such customer. These fire hydrants are located on private property, not in the public right-of-way. Customers are charged for this service based upon the number and size of the hydrant. The monthly rate charges for each hydrant are set forth below.

Table 17
City of Stockton Water System
Private Fire Hydrant and Protection Services
(Fiscal Years)

	2008-09	2009-10	2010-11	2011-12	2012-13
Rate per Hydrant/Month	\$5.25	\$5.50	\$5.75	\$6.00	\$6.00
Hydrant Size					
1 ½ inch connection	\$7.50	\$7.75	\$8.00	\$8.25	\$8.25
2 inch connection	10.00	10.50	10.75	11.00	11.00
3 inch connection	15.00	15.50	16.00	16.50	16.50
4 inch connection	20.00	20.75	21.25	21.75	21.75
6 inch connection	30.00	31.25	32.00	32.75	32.75
8 inch connection	38.00	39.50	40.50	41.50	41.50
10 inch connection	49.75	51.75	53.00	54.25	54.25
12 inch connection	59.75	62.00	63.50	65.00	65.00

Source: City of Stockton.

Delinquencies. Set forth in the table below is a summary of the amounts billed for charges for services and recognized as uncollectible for the last five Fiscal Years. Beginning in Fiscal Year 2007-08, the amount recognized as uncollectible exceeded 1% for the first time. This increase is related to increased foreclosure activity within the City due to adverse economic conditions. For a discussion of construction and foreclosure activity within the City, see APPENDIX A – “GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION CONCERNING THE CITY OF STOCKTON.” [unaudited results for 2012-13 potentially available after August 31]

Table 18
City of Stockton Water System
Uncollectible Charges for Services
(Fiscal Years)
(\$ in 000s)

	2007-08	2008-09	2009-10	2010-11	2011-12
Total Billed	\$22,882.0	\$24,248.0	\$25,772.0	\$30,044.0	\$33,150.0
Amount Uncollected	\$277.8	\$625.0	\$513.0	\$541.0	\$668.0
Uncollectible %	1.21%	2.58%	1.99%	1.80%	2.01%

Source: City of Stockton, Utility Billing.

Comparable Rates and Fees

Comparative Monthly Water Service Charges. The City's standard residential charges as of July 1, 2012 are set forth in Table 19 below with a comparison to other comparable, neighboring cities.

Table 19
City of Stockton Water System
Current Monthly User Fee Comparison
Residential Service
(As of July 1, 2012)

City	Monthly User Fees ⁽¹⁾
Brentwood	\$72.34
Cal Water (Stockton)	51.25
Lathrop	51.25
Modesto	42.09
Stockton	52.75
Tracy	34.05

⁽¹⁾ Assumes ¾" meter and 20 CCF (14,960 gallons) of usage.
Source: City of Stockton.

Comparative Connection Fees. The current Connection Fees and a comparison of the City's Connection Fees to those of other Central Valley and Northern California cities are set forth in Table 20. City Connection Fees are included as part of the City's Water System Net Revenues which are used, in part, to pay the Installment Payments on the Bonds.

Table 20
City of Stockton Water System
Current Water Connection Fees Comparison
(As of July 1, 2012)

City	Water Connection Fee(s)
Pleasanton ⁽¹⁾	\$24,550/22,930
Stockton⁽²⁾	10,497
Brentwood	7,136
Lathrop ⁽¹⁾	5,058/5,321/6,333
Manteca	3,958
Modesto	2,175
Cal Water (Stockton)	0

⁽¹⁾ The connection fee varies depending upon to the location of the property.

⁽²⁾ Includes water connection fee, New Melones Surface Water Supply fee and DWSP Surface Water Supply Fee. The water connection fee alone is \$2,063.

Source: City of Stockton, Municipal Utilities Department.

Investment of Water System Funds

The investment of funds of the City (except pension and retirement funds), including those held under the Indenture and in the Enterprise Funds (including those of the Water System), are made in accordance with the City's Investment Policy, most recently reaffirmed by the City Council on July 30, 2013 (the "Investment Policy") and Section 53600 et seq. of the California Government Code. The Investment Policy is subject to revision at any time and is reviewed at least annually to ensure compliance with the stated objectives of safety, liquidity, yield, and current laws and financial trends. All amounts held under the Indenture are invested at the direction of the City in Permitted Investments, as defined in the Indenture, and are subject to certain limitations contained therein.

The objective of the Investment Policy is to assist the City in accurately monitoring and forecasting expenditures and revenues to enable the City to invest funds to the fullest extent possible while obtaining the highest yield, provided such investments satisfy the criteria established for safety and liquidity.

All funds of the City (except retirement funds) and investment activities are governed by the Investment Policy, which sets forth the following primary objectives, in order of priority:

Safety. The safety of principal is the foremost objective of the investment program. The investments of the City are to be undertaken in a manner which seeks to ensure preservation of the capital in the overall of the portfolio. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Liquidity. Requires that the investment portfolio of the City remain sufficiently liquid to enable the City to meet all operating requirements that might be reasonably anticipated.

Yield. Requires that the investment portfolio be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints of the City and the cash flow characteristics of the portfolio.

The City strives to maintain the level of investment of all funds as near 100% as possible, through daily and projected cash flow determinations. The basic premise underlying the City's investment philosophy is, and continues to be, to insure that funds remain safe and available as needed.

Copies of the Investment Policy may be obtained by contacting the Chief Financial Officer, City Hall, 425 North El Dorado Street, Stockton, California 95202.

Historical Debt Service Coverage

Table 21 sets forth historical revenues, expenses and debt service coverage for Fiscal Year 2007-08 through Fiscal Year 2011-12.

Table 21
City of Stockton Water System
Historical Revenues, Expenses and Coverage
(\$ in thousands)

[2011-12 to be revised when audit complete]

	(Audited) 2007-08	(Audited) 2008-09	(Audited) 2009-10	(Audited) 2010-11	(Unaudited) 2011-12
Charges for Services ⁽¹⁾	\$22,234	\$23,721	\$25,241	\$29,336	\$32,483
Connection Fees ⁽²⁾	1,387	399	840	837	1,314
Miscellaneous	641	532	531	717	991
Interest Income ⁽³⁾	2,090	1,428	2,299	1,889	830
Rate Stabilization Fund	--	--	--	--	--
Total Revenue	\$26,352	\$26,080	\$28,911	\$32,779	\$35,618
Operations & Maintenance (General Operations)	\$ 6,861	\$ 9,303	\$6,582	\$6,484	\$ 6,445
General & Administrative	4,784	4,632	2,433	3,639	2,978
Purchased Water ⁽⁴⁾	6,365	6,188	8,532	9,863	9,683
Operations & Maintenance (DWSP) ⁽⁵⁾	--	--	--	--	866
Total Operation and Maintenance Costs⁽⁶⁾	\$18,010	\$20,123	\$17,547	\$19,986	\$19,972
Net System Revenues	\$ 8,342	\$ 5,957	\$11,364	\$12,793	\$15,646
Drought Loan					
Series 2002A	\$95	\$95	\$95	\$95	\$95
Series 2005	1,112	1,109	1,108	1,114	1,109
Series 2010 (Variable) ⁽⁷⁾	1,150	1,150	1,150	1,150	1,150
	N/A	N/A	N/A	(31)	(69)
Total Parity Obligations Debt Service	\$ 2,357	\$ 2,354	\$2,353	\$ 2,328	\$ 2,285
Parity Obligations DSC	3.54	2.53	4.83	5.50	6.85
Net Revenue Available for Subordinate DS	\$ 5,985	\$ 3,603	\$ 9,011	\$10,465	\$13,361
Series 2009A (Fixed) ⁽⁸⁾	N/A	N/A	\$78	\$632	\$614
Series 2009B (Taxable BABs) (Fixed) ⁽⁸⁾	N/A	N/A	1,202	6,142	5,993
Total Subordinate Obligations Debt Service	--	--	\$1,280	\$6,774	\$6,607
Subordinate Obligations DSC	N/A	N/A	7.04	1.54	2.02
Net System Revenues Available for Capital & Other	\$ 5,985	\$ 3,603	\$ 7,731	\$3,691	\$6,754

⁽¹⁾ Includes approved rate increases of approximately 15% in FY 09-10, 15% in FY 10-11, and 12% in FY 11-12.

⁽²⁾ Includes both the existing water connection fee and new DWSP surface water supply fee approved in FY 09-10.

⁽³⁾ Does not include debt service reserve fund earnings on Series 2009A, Series 2009B or Series 2010A.

⁽⁴⁾ Includes Woodbridge Irrigation District purchased water starting in FY 10-11.

⁽⁵⁾ DWSP commenced operation in June 2012.

⁽⁶⁾ Excludes depreciation and amortization.

⁽⁷⁾ Issued in October 2010 and is net of any capitalized interest and debt service reserve fund earnings. Assumed interest rate of 2% plus LOC and remarketing fees.

⁽⁸⁾ Issued in August 2009 and is net of any capitalized interest, debt service reserve fund earnings and BABs subsidy.
Sources: City of Stockton for revenues and expenses and Del Rio Advisors, LLC, for debt service coverage information.

The audited financial statements for the Water System for the Fiscal Year ended June 30, 2012 are attached as APPENDIX B – “AUDITED FINANCIAL STATEMENTS OF THE CITY OF STOCKTON WATER UTILITY ENTERPRISE FUND.” These financial statements present only the Water Fund and are not intended to present the financial position of the City and the results of its operations and the cash flows of its proprietary fund types.

Projected Debt Service Coverage

Revenues, expenses and debt service coverage (projected) for Fiscal Years 2012-13 through 2016-17 are set forth in Table 22 on the following page based on certain assumptions as described in the footnotes.

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Table 22
City of Stockton Water Utility Fund
Projected Pro Forma and Debt Service Coverage Calculation
(\$ in thousands)

	(Estimated) 2012-13	(Budgeted) 2013-14	(Projected) 2014-15	(Projected) 2015-16	(Projected) 2016-17
Charges for Services ⁽¹⁾	\$35,274	\$36,092	\$37,581	\$38,614	\$39,663
Connection Fees ⁽²⁾	2,441	1,534	2,346	3,451	4,276
Miscellaneous	846	862	871	880	889
Interest Income ⁽³⁾	484	628	799	669	576
Rate Stabilization Fund	2,500	3,400	3,150	1,500	2,800
Total System Revenues	\$41,545	\$42,516	\$44,747	\$45,114	\$48,204
Operations and Maintenance (General Operations) ⁽⁴⁾					
	\$ 8,000	\$ 8,488	\$ 8,700	\$ 8,917	\$9,140
General and Administrative	2,292	2,652	2,719	2,787	2,856
Purchased Water ⁽⁵⁾	7,657	7,850	8,044	7,957	9,806
Operations and Maintenance (DWSP ⁶)	4,525	4,531	4,644	4,760	4,879
Total Operation and Maintenance Costs⁽⁶⁾	\$22,474	\$23,521	\$24,107	\$24,421	\$26,682
Net System Revenues	\$19,070	\$18,995	\$20,640	\$20,692	\$21,522
Drought Loan	95	95	95	95	91
Series 2002A	1,112	1,112	1,115	1,111	1,114
Series 2005	1,150	1,150	1,150	1,150	1,150
Series 2010 (Variable) ⁽⁷⁾	1,561	2,108	3,774	3,776	3,742
Total Parity Obligations Debt Service	\$ 3,918	\$ 4,465	\$ 6,135	\$ 6,132	\$ 6,098
Earnings on Parity Obligations Reserve Funds	\$113	\$77	\$101	\$101	\$101
Total Parity Obligations Net Debt Service	\$3,805	\$4,388	\$6,034	\$6,031	\$5,997
Parity Obligations Debt Service Coverage	5.01	4.33	3.42	3.43	3.59
Net Revenue Available for Subordinate Debt Service	\$15,265	\$14,607	\$14,607	\$14,661	\$15,526
Series 2009A (Fixed) ⁽⁸⁾	3,808	3,809	3,805	3,809	5,796
Series 2009B Taxable BABs (Fixed) ⁽⁸⁾	7,754	8,046	7,754	7,754	7,754
Total Subordinate Obligations Debt Service	\$11,562	\$11,855	\$11,559	\$11,562	\$13,550
Earnings on Subordinate Obligations Reserve Funds	\$392	\$392	\$392	\$392	\$2,342
Total Subordinate Obligations Net Debt Service	\$11,169	\$11,463	\$11,167	\$11,170	\$11,208
Subordinate Obligations Debt Service Coverage	1.37	1.27	1.31	1.31	1.39
Net System Revenues Available for Capital and Other	\$4,096	\$3,144	\$3,440	\$3,491	\$4,318

(1) Includes approved rate increase of approximately 10% in FY 12-13, CPI of 1.7% in FY 13-14 and estimated CPI of 2.5% each year thereafter.

(2) Includes estimated revenue from one-time large industrial connection of approximately \$1.25M in FY 12-13. Includes both the existing water connection fee and DWSP surface water supply fee. Includes growth assumptions of 0.47% in FY 13-14 (225 DUEs), 0.7% in FY 14-15 (336 DUEs), 1.0% in FY 15-16 (483 DUEs), and 1.2% in FY 16-17 (585 DUEs).

(3) Does not include debt service reserve fund earnings on Series 2005, Series 2009A, Series 2009B or Series 2010A.

(4) Does not include DWSP. FY 13-14 excludes \$646,600 in capital equipment purchases.

(5) Includes Stockton East Water District and Woodbridge Irrigation District costs.

(6) Excludes depreciation and amortization. Includes estimated annual CPI of 2.5% starting in FY 14-15.

(7) Issued in October 2010 and is net of any capitalized interest. Assumed interest rate of 2% plus LOC and remarketing fees. Assumes fixed rate conversion starting in FY 13-14.

(8) Issued in August 2009 and is net of any capitalized interest and BABs subsidy. Includes estimated BABs subsidy reduction in FY 13-14.

Sources: City of Stockton for revenues and expenses and Del Rio Advisors, LLC, for debt service coverage information.

DEBT SERVICE SCHEDULE

The Fiscal Year debt service requirements for the Existing Parity Obligations and the Series 2010A Bonds are set forth on the following page.

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**Table 23
Debt Service Schedule**

Fiscal Year (June 30)	Existing Parity Obligations Debt Service ⁽¹⁾	Senior Lien Obligation			Total Senior Lien Debt Service	Subordinate Lien Obligations ⁽²⁾	Total Obligations
		Series 2010A Bonds					
		Principal	Interest	Total			
2014	\$2,357,692	\$				11,562,933	
2015	2,360,842					11,559,033	
2016	2,356,709					11,562,333	
2017	2,359,995					13,549,958 ⁽⁵⁾	
2018	2,498,530					11,512,678	
2019	2,409,433					11,508,912	
2020	2,407,419					11,511,846	
2021	2,406,466					11,509,461	
2022	2,407,522					11,513,005	
2023	2,405,541					11,511,243	
2024	2,409,688					11,508,820	
2025	2,405,297					11,515,024	
2026	2,407,375					11,512,298	
2027	2,405,663					11,513,950	
2028	2,406,825					11,510,116	
2029	2,405,325					11,514,891	
2030	2,404,700					11,512,372	
2031	2,404,700					11,511,786	
2032	2,405,075					11,512,098	
2033	2,408,125					11,507,407	
2034	2,408,850					11,506,680	
2035	2,404,825					11,513,497	
2036	2,405,813 ⁽³⁾					11,511,696	
2037	–					13,916,490	
2038	–					13,918,105	
2039	–					13,920,262 ⁽⁶⁾	
2040	–					–	
2041	–			(4)		–	
TOTAL	\$55,252,410	\$	\$	\$	\$	\$308,706,894	\$

- (1) For a description of the Existing Parity Obligations, see “SECURITY AND SOURCES PAYMENT FOR THE SERIES 2010A BONDS–Parity Obligations–Existing Parity Obligations.”
- (2) Represents debt service on the 2009 Bonds net of the BABs Subsidy with respect to the Taxable Series 2009B Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS–Subordinate Obligations.”
- (3) The balance of the 2005 Series A Bonds debt service reserve fund will be applied to towards the final principal and interest payment.
- (4) The balance of the Series 2010A Reserve Fund will be applied to towards the final principal and interest payment.
- (5) The balance of the Series 2009A debt service reserve fund will be applied to towards the final principal and interest payment.
- (6) The balance of the Taxable Series 2009B debt service reserve fund will be applied to towards the final principal and interest payment.

TAX MATTERS

On the date of original issuance of the Series 2010A Bonds, Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority (“Bond Counsel”), delivered its opinion (the “Original Opinion”) that, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”) and is exempt from State of California personal income taxes. The Original Opinion also stated that interest on the Series 2010A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, nor is it included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expressed no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds. The Original Opinion has not been updated as of the date of this Remarketing Memorandum, and Bond Counsel is not rendering any opinion on the current tax status of the Series 2010A Bonds. A complete copy of the Original Opinion is set forth in Appendix F hereto.

To the extent the issue price of any maturity of the Series 2010A Bonds is less than the amount to be paid at maturity of such Series 2010A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2010A Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Series 2010A Bonds which is excluded from gross income for federal income tax purposes and State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Series 2010A Bonds is the first price at which a substantial amount of such maturity of the Series 2010A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Series 2010A Bonds accrues daily over the term to maturity of such Series 2010A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Series 2010A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2010A Bonds. Beneficial Owners of the Series 2010A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Series 2010A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Series 2010A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2010A Bonds is sold to the public.

Series 2010A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a beneficial owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2010A Bonds. The Authority and the City have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Series 2010A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Series 2010A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Series 2010A Bonds. The Original Opinion assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to

inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2010A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2010A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although the Original Opinion stated that interest on the Series 2010A Bonds is excluded from gross income for federal income tax purposes and is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Series 2010A Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the beneficial owner's other items of income or deduction. Bond Counsel has expressed no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2010A Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. As one example, the Obama Administration's proposed 2014 budget includes a legislative proposal which, for tax years beginning after December 31, 2013, would limit the exclusion from gross income of interest on obligations like the Series 2010A Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Series 2010A Bonds. Prospective purchasers of the Series 2010A Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel has expressed and is expected to express no opinion.

The Original Opinion was based on legal authority as of the date of its delivery, covered certain matters not directly addressed by such authorities, and represented Bond Counsel's judgment as to the proper treatment of the Series 2010A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel has not given any opinion or assurance about the activities of the Authority or the City after the date on which the Original Opinion was delivered, or about the effect of changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS after the date on which the Original Opinion was delivered. The Authority and the City have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Series 2010A Bonds ended with the issuance of the Series 2010A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the City or the beneficial owners regarding the tax-exempt status of the Series 2010A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority, the City and their appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2010A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2010A Bonds, and may cause the Authority, the City or the beneficial owners to incur significant expense.

LEGAL MATTERS

The validity of the Series 2010A Bonds and certain other legal matters were subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority delivered on the date of the original issuance of the Series 2010A Bonds (the "Original Opinion"). A complete copy of the Original Opinion

is contained in APPENDIX F to this Remarketing Memorandum. Bond Counsel has not taken any action to update the Original Opinion. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Remarketing Memorandum.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of the Series 2010A Bonds, Counsel to the Authority and the City Attorney delivered opinions to the initial underwriter of the Series 2010A Bonds that there was no controversy or litigation pending against the Authority or the City or, to the knowledge of their offices, threatened, restraining or enjoining the sale, execution or delivery of the Series 2010A Bonds or the Installment Purchase Contract, or in any way contesting or affecting the validity of the Series 2010A Bonds or the Installment Purchase Contract. No action has been taken to update such opinions.

The Authority

No litigation is pending with service of process having been accomplished or, to the knowledge of the Authority, threatened, concerning the validity of Indenture or Installment Purchase Contract.

The City

There is no litigation pending with service of process having been accomplished or, to the knowledge of the City, threatened, questioning the existence of the City, or the title of the offices of the City to their respective offices. Except as otherwise disclosed in this Remarketing Memorandum, there is no litigation pending or, to the knowledge of the City, threatened, questioning or affecting in any material respect the financial condition of the City's Water System or the validity of the Series 2010A Bonds, the Installment Purchase Contract, or the Indenture.

The City is involved in ongoing contract negotiations with employee bargaining units and also has various legal actions pending against the City. Neither the resolution of the contract negotiations nor the aggregate amount of the uninsured liabilities of the City which may result from all legal claims currently pending against it will, in the opinion of the City, materially affect the financial condition of the City's Water System or impair its ability of the City to make the 2010 Installment Payments under the Installment Purchase Contract.

RATINGS

Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's Ratings Group, a Division of McGraw-Hill Companies ("S&P") and Fitch, Inc., doing business as Fitch Ratings ("Fitch") have issued ratings on the Series 2010A Bonds of "___," "___" and "___," respectively.

A rating reflects only the view of the agency giving such rating and is not a recommendation to buy, sell or hold the Series 2010A Bonds. An explanation of the significance of each rating may be obtained from the rating agencies at the following addresses: Moody's Investors Service, Inc., 7 World Trade Center at 250 Greenwich Street, New York, New York 10007; Standard & Poor's Ratings Group, a Division of McGraw-Hill Companies, 55 Water Street, New York, New York 10041 and Fitch Inc., One State Street Plaza, New York, New York 10004. There is no assurance that the ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by either rating agency if, in its judgment, circumstances so warrant. The Authority undertakes no responsibility to oppose any such revision or withdrawal but the Authority will comply with notification requirements. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Series 2010A Bonds.

R E M A R K E T I N G A G E N T

The Authority and the City have appointed Citigroup Global Markets Inc. as Remarketing Agent (the “Remarketing Agent”) under the Indenture and the Series 2010A Bonds are being remarketed by the Remarketing Agent. The Remarketing Agent will be paid a fee of \$[] in connection with the remarketing of the Series 2010A Bonds on the Conversion Date. The Remarketing Agent currently maintains an office at 390 Greenwich Street, 2nd Floor New York, New York 10013.

FINANCIAL ADVISOR

The Authority has retained Del Rio Advisors, LLC of Modesto, California, as financial advisor (the “Financial Advisor”) in connection with the preparation of this Remarketing Memorandum. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or assume responsibility for the accuracy, completeness, or fairness of the information contained in this Remarketing Memorandum.

CONTINUING DISCLOSURE

The Authority has determined that no financial or operating data concerning the Authority is material to an evaluation of the offering of the Series 2010A Bonds or to any decision to purchase, hold or sell the Series 2010A Bonds and the Authority will not provide any such information. The City has undertaken all responsibilities of the Authority for any continuing disclosure to Holders of the Series 2010A Bonds as described below, and the Authority shall have no liability to the Holders of the Series 2010A Bonds or any other person with respect to S.E.C. Rule 15c2-12. The City has covenanted for the benefit of the Owners to provide certain financial information and operating data relating to the Series 2010A Bonds by not later than 270 days following the end of the City’s Fiscal Year (which currently is June 30) (the “Annual Report”), and to provide notices of the occurrence of certain events. The Annual Report and notices of events will be filed by means of the Electronic Municipal Market Access (EMMA) site maintained by the MSRB. The specific nature of the information to be contained in the Annual Report or the notices of events is contained within APPENDIX D—“CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Remarketing Agent in complying with S.E.C. Rule 15c2-12(b)(5).

On several occasions during the last five years the City has failed to provide audited financial statements in the time required by its continuing disclosure undertakings. In addition, in several cases, certain items of information required to be contained in annual reports were unintentionally omitted. As a result of the implementation of certain administrative changes, the City believes it will be in full compliance with its continuing disclosure obligations in the future.

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MISCELLANEOUS

This Remarketing Memorandum is not to be construed as a contract or agreement between the Authority, the City and the Remarketing Agent. Any statements made in this Remarketing Memorandum involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. The information and expressions of opinion herein are subject to change without notice and neither the delivery of the Remarketing Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the City since the date hereof.

References are made herein to certain documents and reports which are brief summaries thereof which do not purport to be complete or definitive and reference is made to such documents and reports for full and complete statements of the contents thereof. Copies of such documents and reports are available for inspection at the office of the Interim Chief Financial Officer, City of Stockton, 425 North El Dorado Street, Stockton California 95202.

The execution and delivery of the Remarketing Memorandum by the City has been duly authorized by the Board of Directors of the Authority.

STOCKTON PUBLIC FINANCING AUTHORITY

By: _____
Treasurer

CITY OF STOCKTON

By: _____
Chief Financial Officer

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

The following information concerning the City and surrounding areas is included only for the purpose of supplying general information regarding the community. The Series 2010A Bonds are not a debt of the City, the State or any of its political subdivisions and neither the City, the State, nor any of its political subdivisions is liable therefor. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 2010A BONDS."

Overview

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

Governing Body

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

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

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

**TABLE A-1A
CITY OF STOCKTON
Mayor and City Councilmembers**

Name	Office	Term Expires	Occupation
Anthony Silva	Mayor	12/31/16	Nonprofit CEO
Katherine M. Miller	Vice Mayor, District 2	12/31/16	Businesswoman
Elbert H. Holman, Jr.	Councilmember, District 1	12/31/14	Retired – law enforcement
Paul Canepa	Councilmember, District 3	12/31/14	Businessman
Moses Zapien	Councilmember, District 4	12/31/16	Attorney
Dyane Burgos	Councilmember, District 5	12/31/14	Social worker
Michael Tubbs	Councilmember, District 6	12/31/16	Educator

**TABLE A-2
CITY OF STOCKTON
Key Administrative Personnel**

Name	Position
Bob Deis	City Manager
John Luebberke	City Attorney
Vanessa Burke	Chief Financial Officer
Moss Adams LLP ¹	City Auditor
Bonnie Paige	City Clerk

The City provides a full range of municipal services. As provided in the City Charter, these services include public safety (police, fire, paramedics, water rescue and building inspection), sanitation (solid waste disposal, wastewater and stormwater utilities), water utility, community development, library, parks and recreation and general administrative services. Budgeted City full-time employees number 1,439 for Fiscal Year 2013-14, all of which are full-time permanent employees. Of the full time employees, 554 are assigned to the Police Department and 209 to the Fire Department. Fire protection service is provided by the City, which has 12 stations and one fire training facility within its borders.

¹ In March 2013, a contract was entered into for the firm Moss Adams LLP to provide services to the City as the City Auditor.

Population

Population information is set forth in Table A-3.

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

Year	City of Stockton	County of San Joaquin	State of California
2000 ⁽¹⁾	243,771	563,598	33,873,086
2006	282,869	656,247	36,116,202
2007	285,750	665,304	36,399,676
2008	287,093	672,492	36,704,375
2009	288,591	677,833	36,966,713
2010 ⁽¹⁾	291,707	685,306	37,253,956
2011	292,897	689,160	37,427,946
2012	294,537	692,997	37,668,804
2013	296,344	698,414	37,966,471

⁽¹⁾ As of April 1 of that year.

Source: California State Department of Finance, E-1 Cities, Counties, and the State population Estimates with Annual Percent Change—January 1, 2012 and 2013, with 2010 Census Benchmark; E-4 Population Estimates for Cities, Counties and State, 2011-2013, with 2010 Benchmark.

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Labor Force and Employment

Table A-4 table represents the labor patterns in the City, the County, the State, and the United States from 2008 through 2012.

Table A-4
CITY OF STOCKTON, SAN JOAQUIN COUNTY,
STATE OF CALIFORNIA AND UNITED STATES
Civilian Labor Force, Employment, and Unemployment
2007 through 2012

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate
2012				
City	125,900	102,900	23,000	18.3
County	298,500	253,200	45,300	15.2
State	18,494,900	16,560,300	1,934,500	10.5
United States	154,975,000	142,469,000	12,506,000	8.1
2011				
City	126,000	100,600	25,500	20.2%
County	297,600	247,400	50,100	16.8
State	18,384,900	16,226,600	2,158,300	11.7
United States	153,617,000	139,869,000	13,747,000	8.9
2010				
City	127,600	101,200	26,400	20.7
County	300,800	248,900	51,900	17.3
State	18,316,400	16,051,500	2,264,900	12.4
United States	153,889,000	139,064,000	14,825,000	9.6
2009				
City	125,800	102,700	23,100	18.4
County	298,200	252,700	45,400	15.2
State	18,208,300	16,144,500	2,063,900	11.3
United States	154,142,000	139,877,000	14,265,000	9.3
2008				
City	122,300	106,800	15,400	12.6
County	293,200	262,800	30,400	10.4
State	18,203,100	16,890,000	1,650,200	9.0
United States	154,287,000	145,362,000	8,924,000	5.8

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

Employment and Industry

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

The largest employers in the City as of Fiscal Year 2010-11 are set forth in Table A-5.

Table A-5
CITY OF STOCKTON
Largest Employers Fiscal Year 2010-11
(As of August 2010)

Company	Product/Service	Employees
San Joaquin County [†]	County Government	5,700
Stockton Unified School District	Public Education	4,100
St. Joseph's Regional Health System	Health Care	2,800
OG Packing Company	Warehouse - Cold Storage	2,001
City of Stockton	City Government	1,584
Dameron Hospital	Health Care	1,200
University of the Pacific	Private College	960
Morada Produce	Fruit/Vegetable Processing	900
Foster Care Services	Social Services	800
Walmart	Department Store	730
Kaiser Permanente	Health Care	500
Teletech Communications	Communications Consultants	500
Vida en el Valle	Newspaper Publisher	500

[†] Includes employees of the San Joaquin General Hospital.

Source: *City of Stockton Economic Development Department and Human Resources Department.*

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

Table A-6
STOCKTON MSA
Industry Employment⁽¹⁾ and Labor Force
By Annual Average
March 2012 Benchmark

	2008	2009	2010	2011	2012
Total All Industries	220,600	209,000	203,400	204,700	204,800
Agriculture	14,900	15,200	15,700	15,000	14,900
Nonagriculture	205,700	193,800	187,600	189,600	189,900
Goods Producing	32,800	27,400	25,300	25,700	25,400
Manufacturing	21,200	18,900	17,600	18,000	17,700
Wholesale Trade	10,400	9,900	10,000	10,400	10,600
Retails Trade	25,600	23,700	23,700	24,500	24,800
Transportation, Warehousing, Utilities	14,100	13,900	13,800	15,000	15,100
Information	2,400	2,200	2,100	1,900	1,800
Financial Activities	9,400	8,900	7,700	7,400	7,400
Professional and Business Services	17,600	15,900	15,400	15,800	16,300
Education and Health Services	28,400	28,300	28,800	29,400	28,900
Leisure and Hospitality	17,500	16,700	16,100	16,800	16,900
Other Services	7,400	7,000	6,500	6,400	6,500
Government	40,400	39,900	38,200	36,300	36,200

⁽¹⁾ Industry employment is by place of work; excludes business owners, self-employed people, unpaid volunteers or family workers and private household workers.

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

Personal Income

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

Table A-7 summarizes the total personal income and per capita income for the Stockton Metropolitan Statistical Area (an "MSA"), the State and the United States for the calendar years 2007 through 2011. The principal city for the Stockton MSA is the City.

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

Year and Area	Personal Income (millions of dollars)	Per Capita Personal Income (dollars)
2011		
Stockton MSA	\$21,591	\$31,013
State	1,676,565	44,481
United States	12,981,741	41,663
2010		
Stockton MSA	\$21,133	\$30,732
State	1,587,404	42,514
United States	12,353,577	39,937
2009		
Stockton MSA	\$20,421	\$30,132
State	1,526,531	41,301
United States	11,916,773	38,846
2008		
Stockton MSA	\$20,991	\$31,250
State	1,610,698	44,003
United States	12,451,660	40,947
2007		
Stockton MSA	\$20,718	\$31,012
State	1,566,400	43,211
United States	11,900,562	39,506

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

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Construction Activity

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

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

Permit Valuation	2008	2009	2010	2011	2012
New Single Family	\$ 43,049.2	\$ 42,530.6	\$23,884.0	\$26,050.0	\$ 19,378.0
New Multiple Family	708.0	0.0	11,470.0	0.0	240.0
Residential Alterations/Additions	13,773.0	10,270.0	10,222.0	14,781.0	9,592.0
TOTAL RESIDENTIAL	\$57,530.1	\$ 52,800.6	\$45,576.0	\$40,831.0	\$ 29,210.0
New Commercial	\$153,853.4	\$ 1,850.0	\$ 7,843.0	\$10,111.0	\$ 5,648.0
New Industrial	37,145.9	0.0	998.0	41,266.0	16,376.0
New Other	13,264.9	17,059.8	981.0	962.0	962.0
Commercial Alterations/Additions	62,446.4	35,548.2	8,482.0	5,014.0	10,153.0
TOTAL NONRESIDENTIAL	\$266,710.6	\$ 54,458.0	\$18,304.0	\$57,354.0	\$ 33,140.0
New Dwelling Units					
Single Family	164	187	108	127	86
Multiple Family	8	0	11	0	1
TOTAL	172	187	119	127	87

[†] Certain columns may not total due to rounding.

Source: City of Stockton Community Development Department.

Foreclosure Activity

Based on information provided by an independent data collection service, for calendar year 2012, mortgage holders had sent 2,984 notices of default with respect to properties located within the City compared to a peak of 8,763 during calendar year 2008, and 1,834 trustee deeds had been recorded (indicating that the property has been lost to foreclosure) during calendar year 2012 compared to a peak of 6,455 during calendar year 2008. The number of notices of default and trustee deeds recorded has been decreasing since 2008. During the first half (January through June) of calendar year 2013, mortgage holders sent 582 notices of default and recorded 420 trustee deeds compared to 4,280 notices of default sent and 2,045 trustee deeds recorded during the first half calendar year 2009. The peak number of notices of default and trustee deeds recorded in 2009 is related to the collapse of the subprime sector of the mortgage market that had impacted certain homeowners nationwide. In California, the greatest impact occurred in regions of the Central Valley (such as San Joaquin County) and the Inland Empire in Southern California, where the largest number of new mortgages were originated as growth occurred within the County.

A summary of the notices of default sent and trustee deeds recorded for the City and the County for calendar years 2007 through 2012 and for the first half (January through June) of calendar year 2009 through 2013 is set forth in Table A-9.

Table A-9
CITY OF STOCKTON AND SAN JOAQUIN COUNTY
Summary of Foreclosure Activity
Calendar Years 2007 through 2012 and First Half of Calendar Years 2009 through 2013

	Notices of Default											
	Calendar Year						First Half (January –July)					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>% Change from 2009</u>
City	6,009	8,763	7,262	4,702	3,656	2,984	4,280	2,359	1,797	1,694	582	(86.4)
County	11,051	16,410	13,660	8,891	7,028	5,431	7,896	4,478	3,363	3,143	992	(87.4)

	Trustee Deeds (Foreclosures)											
	Calendar Year						First Half (January –July)					
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>% Change from 2009</u>
City	2,310	6,455	4,232	3,403	2,889	1,834	2,045	1,792	1,602	966	420	(79.4)
County	3,971	11,625	7,594	6,115	5,129	3,201	3,613	3,240	2,865	1,713	696	(80.7)

Source: MDA DataQuick Information.

Transportation

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

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

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

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

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

Education and Recreation

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

The majority of students living within City limits attend schools operated by one of four unified school districts providing kindergarten through grade 12 education: the Stockton Unified School District, the Lodi Unified School District, the Lincoln Unified School District and the Manteca Unified School District.

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

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

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

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

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

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

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

The 220,000 square foot, 10,000 seat Stockton Arena is home of the Stockton Thunder Minor League Hockey Team.

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

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

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

APPENDIX B

**AUDITED FINANCIAL STATEMENTS OF THE CITY OF STOCKTON
WATER UTILITY ENTERPRISE FUND**

APPENDIX C

SUMMARY OF CERTAIN PROVISIONS OF THE PRINCIPAL LEGAL DOCUMENTS

APPENDIX D
CONTINUING DISCLOSURE CERTIFICATE

APPENDIX E

DTC AND THE BOOK-ENTRY ONLY SYSTEM

The following description of the procedures and record keeping with respect to beneficial ownership interests in the Series 2010A Bonds, payment of principal, redemption premium, if any, and interest with respect to the Series 2010A Bonds to DTC, its Participants or Beneficial Owners, confirmation and transfers of beneficial ownership interests in the Series 2010A Bonds and other related transactions by and between DTC, its Participants and the Beneficial Owners is based solely on the understanding of the Authority of such procedures and record keeping from information provided by DTC. Accordingly, no representations can be made concerning these matters and neither DTC, its Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or its Participants, as the case may be. The Authority, the Trustee and the Remarketing Agents understand that the current “Rules” applicable to DTC are on file with the Securities and Exchange Commission and that the current “Procedures” of DTC to be followed in dealing with Participants are on file with DTC.

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2010A Bonds. The Series 2010A Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Series 2010A Bond certificate will be issued for each maturity of the Series 2010A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2010A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2010A Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2010A Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial

Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2010A Bonds, except in the event that use of the book-entry system for the Series 2010A Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series 2010A Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2010A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2010A Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2010A Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Indenture. For example, Beneficial Owners of the Series 2010A Bonds may wish to ascertain that the nominee holding the Series 2010A Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2010A Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in each issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2010A Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2010A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Series 2010A Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest on the Series 2010A Bonds to Cede (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2010A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the Authority nor the Trustee take any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR REDEMPTION.

Neither the Authority nor the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Series 2010A Bonds paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Remarketing Memorandum.

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply.

The Authority and the Trustee cannot and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Series 2010A Bonds paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Remarketing Memorandum. Neither the Authority nor the Trustee are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Series 2010A Bonds or an error or delay relating thereto.

APPENDIX F
ORIGINAL OPINION OF BOND COUNSEL

STOCKTON PUBLIC FINANCING AUTHORITY

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Trustee

FIRST SUPPLEMENTAL INDENTURE

Dated as of September 1, 2013

Relating to

STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS
SERIES 2010A (DELTA WATER SUPPLY PROJECT)

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EXHIBIT A	[FORM OF BOND] A-1

FIRST SUPPLEMENTAL INDENTURE

This FIRST SUPPLEMENTAL INDENTURE (this “First Supplement”), dated as of September 1, 2013, by and between the STOCKTON PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the “Authority”), and WELLS FARGO BANK, NATIONAL ASSOCIATION, a national banking association duly organized and existing under the laws of the United States of America (the “Trustee”);

WITNESSETH:

WHEREAS, on October 21, 2010, the Authority issued its Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project), in the aggregate principal amount of \$55,000,000 (the “Bonds”), pursuant to an Indenture, dated as of October 1, 2010 (the “Indenture”), by and between the Authority and the Trustee;

WHEREAS, the Authority issued the Bonds to assist the City of Stockton (the “City”) in financing certain public capital improvements;

WHEREAS, the City has exercised its election pursuant to Section 2.12(f)(ii)(A) of the Indenture to convert the interest rate period of the Bonds on September __, 2013 (the “Conversion”) and, in connection with such Conversion, the Bonds will be subject to mandatory tender and remarketing under the provisions of the Indenture;

WHEREAS, concurrently with the Conversion, the City also desires to modify certain terms of the Bonds and the Indenture and has requested that the Authority modify such terms;

WHEREAS, the Authority and the Trustee have agreed to execute and deliver this First Supplement pursuant to Section 9.01(e) of the Indenture to modify the terms of the Bonds in the manner provided herein, such modification to be effective upon the remarketing of the Bonds following the mandatory tender of the Bonds;

NOW, THEREFORE, for and in consideration of these premises and the mutual covenants herein contained, the parties hereto do hereby agree as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. All terms which are defined in Section 1.01 of the Indenture shall (except as otherwise provided herein) have the same definitions, respectively, in this First Supplement that are given to such terms in Section 1.01 of the Indenture.

ARTICLE II

AMENDMENT OF INDENTURE

SECTION 2.01. Amendment of Article I of the Indenture. Article I of the Indenture is hereby amended by the addition of the following definitions:

“Sinking Fund” shall mean each subaccount in the Principal Account so designated and established pursuant to Section 4.01(b)(v).

“Mandatory Sinking Fund Payment” shall mean the amount required by Section 4.01(b)(ii) and Sections 4.01(b)(iv) to be paid by the Authority on any single date for the retirement of the Bonds.

“Term Bond” means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Fund Payments established for the purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

SECTION 2.02. Modification of Certain Terms of the Bonds after Conversion.

(A) Notwithstanding anything contained in the Indenture to the contrary, including but not limited to Sections 2.11 and 2.12(f) of the Indenture, upon the Conversion of the Bonds on September __, 2013, the Bonds shall mature (subject to any right of prior redemption) on October 1 in the following years and in the following principal amounts, shall bear interest at the following rates per annum, and shall be remarketed on September __, 2013 at the following prices (expressed as a percentage of the principal amount thereof):

Maturity Date (October 1)	Principal Amount	Interest Rate	Price
------------------------------	---------------------	------------------	-------

(B) Notwithstanding anything contained in the Indenture to the contrary, including but not limited to Section 4.01(a)(ii) of the Indenture, upon the Conversion of the Bonds on September __, 2013, the Bonds shall be subject to optional redemption as follows:

(i) The Bonds maturing on or after October 1, 20__, are subject to redemption prior to their respective maturities at the option of the Authority, in whole or in part (in such amounts and maturities as may be specified by the Authority or, if the Authority fails to specify such maturities, in inverse order of maturity), on any date on or after October 1, 20__, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

SECTION 2.03. Amendment of Section 4.01(b) of the Indenture. Section 4.01(b) of the Indenture is amended to read in full as follows:

“(b) Mandatory Redemption.

(i) The Bonds maturing on October 1, 20__, are also subject to redemption prior to their stated maturity on any October 1 on or after October 1, 20__, in part, by lot, from Mandatory Sinking Fund Payments for such Bonds established pursuant to Section 4.01(b)(ii), at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

(ii) Mandatory Sinking Fund Payments for the Bonds maturing on October 1, 20__, shall be due in such amounts and on such dates as follows (except that if any of such Bonds shall have been optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Payments for such Bonds shall be revised as directed in writing by the Authority):

Mandatory Sinking Fund Payment Date (October 1)	Mandatory Sinking Fund Payment
---	-----------------------------------

*Final Maturity

(iii) The Bonds maturing on October 1, 20__, are also subject to redemption prior to their stated maturity on any October 1 on or after October 1, 20__, in part, by lot, from Mandatory Sinking Fund Payments for such Bonds established pursuant to Section 4.01(b)(iv), at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

(iv) Mandatory Sinking Fund Payments for the Bonds maturing on October 1, 20__, shall be due in such amounts and on such dates as follows (except that if any of such Bonds shall have been optionally redeemed, the amounts of the remaining Mandatory Sinking Fund Payments for such Bonds shall be revised as directed in writing by the Authority):

Mandatory Sinking Fund Payment Date (October 1)	Mandatory Sinking Fund Payment
---	-----------------------------------

*Final Maturity

(v) The Trustee shall establish and maintain within the Principal Account separate subaccounts for each maturity of the Term Bonds designated as the “_____ Sinking Fund” (inserting therein the maturity of such Bonds). The Bond Trustee shall transfer the amount deposited in the Principal Account pursuant to Section 5.02 for the purpose of making a Mandatory Sinking Fund Redemption (if such payment is required at such time) from the Principal Account to the applicable Sinking Fund. On each Mandatory Sinking Fund Payment date established for the Sinking Fund, the Trustee shall apply the Mandatory Sinking Fund Payment required on that date to the redemption (or payment at maturity, as the case may be) of the Bonds of the maturity for which the Sinking Fund was established, upon the notice and in the manner provided in Article IV; provided that, at any time prior to giving such notice of such redemption, the Trustee may apply moneys in such Sinking Fund to the purchase of Bonds of the maturity for which such Sinking Fund was established at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as directed in writing by the Authority, except that the purchase price (excluding accrued interest) shall not exceed the par amount of the Bonds so purchased. If, during the twelve-month period immediately preceding a Mandatory Sinking Fund Payment date, the Trustee has purchased, with moneys in a Sinking Fund, Bonds of the maturity for which such Sinking Fund was established or, during said period and prior to giving said notice of redemption, the Authority has deposited any such Bonds with the Trustee (together with a Request of the Authority to apply such Bonds to the related Mandatory Sinking Fund Payment due on said date), or any such Bonds were at any time purchased or redeemed by the Trustee from the Redemption Account and allocable to said Mandatory Sinking Fund Payment, such Bonds shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Fund Payment. All Bonds purchased or deposited pursuant to this subsection, if any, shall be cancelled by the Trustee. Bonds purchased from a Sinking Fund, purchased or redeemed from the Redemption Account, or deposited by the Authority with the Trustee shall be allocated as the Authority may specify in writing. Any amounts remaining in the Sinking Fund when all of the Bonds of the maturity for which the Sinking Fund was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Bond Payment Fund.

SECTION 2.04. Amendment and Exchange of the Bonds. In accordance with Section 9.03 of the Indenture, upon the Conversion of the Bonds on September __, 2017 and the effective date of this First Supplement, the Bonds shall be evidenced by one Bond for each maturity of the Bonds in substantially the form attached hereto as Exhibit A.

ARTICLE III

MISCELLANEOUS

SECTION 3.01. Authority for First Supplement. This First Supplement is supplemental to and is executed in accordance with Section 9.01(e) of the Indenture and in all respects not inconsistent with the terms and provisions of this First Supplement, the Indenture is hereby ratified, approved and confirmed and the Indenture, as so amended hereby, and this First Supplement shall be read, taken and construed as one and the same instrument.

SECTION 3.02. Effective Date of First Supplement. This First Supplement shall take effect from and after its execution and delivery and upon the mandatory tender and remarketing of the Bonds.

SECTION 3.03. Execution in Several Counterparts. This First Supplement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Authority has caused this First Supplement to be signed in its name and on its behalf by its duly authorized representative and the Trustee has caused this First Supplement to be signed in its name and on its behalf by its duly authorized representative, all as of the day and year first above written.

STOCKTON PUBLIC FINANCING
AUTHORITY

By _____
Authorized Signatory

WELLS FARGO BANK, NATIONAL
ASSOCIATION, as Trustee

By _____
Authorized Officer

EXHIBIT A**[FORM OF BOND]**

No. R - ___

\$ _____

**UNITED STATES OF AMERICA
STATE OF CALIFORNIA****STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BOND,
SERIES 2010A (DELTA WATER SUPPLY PROJECT)**

TYPE OF INTEREST RATE PERIOD	BOND PAYMENT MATURITY DATE	ORIGINAL ISSUE DATE	INTEREST RATE	CUSIP
Long-Term	October 1, 20__	October 21, 2010	___%	

REGISTERED OWNER: CEDE & CO.

PRINCIPAL AMOUNT: _____ DOLLARS

The STOCKTON PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the "Authority"), for value received, hereby promises to pay to the Registered Owner specified above or registered assigns (the "Registered Owner"), on the Maturity Date specified above (subject to any right of prior redemption hereinafter provided for), the Principal Amount specified above, in lawful money of the United States of America, and to pay interest thereon in like lawful money from and including the Interest Accrual Date (as defined in the hereinafter defined Indenture) (unless (i) such date of authentication is an Interest Accrual Date to which interest on this Bond has been paid in full or duly provided for, in which case interest shall be payable from such date of authentication, or (ii) this Bond is authenticated on or before October 21, 2010, in which case interest shall be payable from the Original Issue Date identified above; provided, however, that if as of the date of authentication of this Bond, interest is in default on this Bond, this Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on this Bond), payable on each Interest Payment Date at the rate per annum as determined pursuant to the Indenture, dated as of October 1, 2010, by and between the Authority and the Trustee relating to the Bonds, as amended by the First Supplemental Indenture, dated as of September 1, 2013, between the Authority and the Trustee (collectively, the "Indenture"). Interest with respect to this Bond shall be paid on each Interest Payment Date, at the Daily Interest Rate, Weekly Interest Rate, Long-Term Interest Rate or Bond Interest Term Rate, as the case may be, all as provided in the Indenture. Principal hereof and premium, if any, upon early redemption hereof are payable in lawful money of the United States of America upon presentation and surrender at the corporate trust office of Wells Fargo Bank National Association, as trustee (the "Trustee"), in San Francisco, California, or at

such other or additional offices as may be specified by the Trustee from time to time (the “Principal Corporate Trust Office”).

The principal and Purchase Price of and premium, if any, and interest on this Bond shall be payable in lawful money of the United States of America. Such amounts shall be paid by the Trustee on the applicable payment dates (i) while this Bond bears interest other than at a Long-Term Interest Rate, by wire transfer of immediately available funds on the applicable Record Date (as defined in the Indenture) to an account within the United States of America specified by the Owner thereof in writing delivered to the Trustee, and (ii) while this Bond bears interest at the Long-Term Interest Rate, by check mailed by the Trustee to the respective Owners thereof on the applicable Interest Payment Date at their addresses as they appear as of the close of business on the applicable Record Date in the registration books kept by the Trustee, except that in the case of such an Owner of \$1,000,000 or more in aggregate principal amount of Bonds, upon the written request of such Owner to the Trustee at least two Business Days (as defined in the Indenture) before the Record Date, specifying the account or accounts in the United States to which such payment shall be made, such payments shall be made by wire transfer of immediately available funds on the applicable payment date following such Record Date. Any request referred to in clause (ii) of the preceding sentence shall remain in effect until revoked or revised by such Owner by an instrument in writing delivered to the Trustee. Bank Bonds (as defined in the Indenture) shall be payable as set forth in the Credit Facility (as defined in the Indenture).

This Bond shall be issued in the form of a fully registered Bond in Authorized Denominations (as defined in the Indenture); provided that no Bond shall have principal represented thereby maturing in more than one year. Subject to the limitations and conditions and upon payment of the taxes and governmental charges provided in the Indenture, this Bond may be exchanged or transferred as provided in the Indenture at the Principal Corporate Trust Office of the Trustee.

Capitalized terms used herein and not defined herein have the meaning assigned thereto in the Indenture.

This Bond shall not be entitled to any benefit under the Indenture or become valid or obligatory for any purpose until the certificate of authentication hereon endorsed shall have been signed by the Trustee.

This Bond is one of a duly authorized issue of revenue bonds of the Authority designated as its “Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project)” (the “Bonds”) in the original aggregate principal amount of \$55,000,000 all of like tenor and date (except for such variations, if any, as may be required to designate varying numbers, maturities and interest rates), and is issued under and pursuant to the provisions of the Joint Exercise of Powers Act (being Chapter 5 of Division 7 of Title 1 of the California Government Code, as amended) and all laws amendatory thereof or supplemental thereto (the “Act”) and under and pursuant to the provisions of the Indenture (copies of which are on file at the Principal Corporate Trust Office of the Trustee).

The Bonds were originally issued to provide funds to finance the cost of the acquisition and construction of certain additions, betterments, extensions and improvements to the Water System (the “2010 Water Project”) of the City of Stockton (the “City”) to be sold by the Authority to the City. The Bonds are limited obligations of the Authority and are payable, as to interest thereon, principal thereof and any redemption premiums thereon, solely from the Revenues (the “Revenues”) constituting the installment payments (the “Installment Payments”) to be made by the City to the Authority for the purchase of the 2010 Water Project pursuant to the Installment Purchase Contract, dated as of October 1, 2010, by and between the City and the Authority, as amended by the First Supplemental Installment Purchase Contract, dated as of September 1, 2013, between the City and the Authority (collectively, the “Installment Purchase Contract”) and the funds held in the accounts and funds pursuant to the Indenture as provided therein, and the Authority is not obligated to pay interest on or principal of or redemption premiums, if any, on the Bonds except from the Revenues and such funds. All the Bonds are equally and ratably secured in accordance with the terms and conditions of the Indenture by a pledge of and charge and lien upon the Revenues and such funds, and the Revenues and such funds constitute a trust fund for the security and payment of the interest on and principal of and redemption premiums, if any, on the Bonds as provided in the Indenture. The full faith and credit of the Authority is not pledged for the payment of the interest on or principal of or redemption premiums, if any, on the Bonds, and no tax shall ever be levied or collected to pay the interest on or principal of or redemption premiums, if any, on the Bonds. The Bonds are not secured by a legal or equitable pledge of or charge or lien upon any property of the Authority or any of its income or receipts except the Revenues and such funds. Neither the payment of the interest on or principal of or redemption premiums, if any, on the Bonds is a debt, liability or general obligation of the City or the State of California and neither the faith and credit of the City or the State of California are pledged to the payment of interest on or principal or redemption premiums, if any, on the Bonds. Reference is hereby made to the Act and to the Indenture and any and all amendments thereof and supplements thereto for a description of the terms on which the Bonds are issued, the provisions with regard to the nature and extent of the Revenues, the rights of the registered owners of the Bonds, the security for payment of the Bonds, the remedies upon default and limitations thereon, and the amendment of the Indenture (with or without consent of the registered owners of the Bonds); and all the terms of the Indenture are hereby incorporated herein and constitute a contract between the Authority and the registered owner of this Bond, to all the provisions of which the registered owner of this Bond, by acceptance hereof, agrees and consents.

The Bonds were originally issued bearing interest at a Weekly Interest Rate for a Weekly Interest Rate Period. The Bonds were converted to Fixed Rate Bonds on September __, 2013 (the “Conversion Date”). From and after the Conversion Date, interest shall be computed on the basis of a 360-day year consisting of twelve 30-day months. From and after the Conversion Date, the Interest Rate Period with respect to all the Bonds may no longer be adjusted to an alternate Interest Rate Period.

From and after the Conversion Date, the Bonds shall be subject to redemption prior to maturity as follows:

The Bonds maturing on or after October 1, 20___, are subject to redemption prior to their respective maturities at the option of the Authority, in whole or in part (in such amounts and

maturities as may be specified by the Authority or, if the Authority fails to specify such maturities, in inverse order of maturity), on any date on or after October 1, 20___, at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The Bonds maturing on October 1, 20___, are also subject to redemption prior to their stated maturity on any October 1 on or after October 1, 20___, in part, by lot, from Mandatory Sinking Fund Payments for such Bonds established pursuant to the Indenture, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The Bonds maturing on October 1, 20___, are also subject to redemption prior to their stated maturity on any October 1 on or after October 1, 20___, in part, by lot, from Mandatory Sinking Fund Payments for such Bonds established pursuant to the Indenture, at a redemption price equal to 100% of the principal amount of such Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption, without premium.

The Indenture and the rights and obligations of the Authority and the City and Owners and the Trustee thereunder may be amended or supplemented at any time by an amendment or supplement which shall become binding when the written consents of the Owners of a majority in aggregate principal amount of the Bonds then Outstanding, with the written consent of the Credit Facility Provider, if any, exclusive of Bonds disqualified as provided in the Indenture, are filed with the Trustee. No such amendment or supplement shall reduce the rate of interest on any Bond or extend the time of payment thereof or reduce the amount of principal or redemption premium, if any, of any Bond or extend the maturity thereof or otherwise alter or impair the obligation of the Authority to pay the interest and principal and redemption premium, if any, thereon at the time and place and at the rate and in the currency and from the funds provided therein without the prior written consent of the Owner of the Bond so affected.

The Indenture and the rights and obligations of the Authority and the City and the Owners and the Trustee thereunder may also be amended or supplemented by an amendment or supplement which shall become binding upon execution without the written consents of any Owners for the purposes and on the terms provided in the Indenture.

If an Event of Default, as defined in the Indenture, shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture, but such declaration and its consequences may be rescinded and annulled as further provided in the Indenture.

This Bond is transferable by the Registered Owner hereof, in person or by his or her duly authorized attorney, at the Principal Corporate Trust Office of the Trustee but only in the manner subject to the limitations and upon payment of the taxes and charges provided in the Indenture and upon surrender and cancellation of this Bond. Upon registration of such transfer, a new Bond or Bonds, of authorized denomination or denominations, for a like aggregate principal amount and of like maturity will be issued to the transferee in exchange therefor.

Bonds may be exchanged at said office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations and of like maturity, but only in the manner, subject to the limitations and upon payment of the taxes and charges provided in the Indenture.

The Authority and the Trustee may treat the Registered Owner hereof as the absolute owner hereof for all purposes, and the Authority and the Trustee shall not be affected by any notice to the contrary.

IN WITNESS WHEREOF, the STOCKTON PUBLIC FINANCING AUTHORITY has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its Chairperson and attested to by the manual or facsimile signature of its Secretary, all as of October 21, 2010.

STOCKTON PUBLIC FINANCING AUTHORITY

By: _____
Chairperson

ATTEST:

By: _____
Secretary

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

This is one of the Bonds described in the within mentioned Indenture.

Dated: September __, 2013

WELLS FARGO BANK NATIONAL
ASSOCIATION, as Trustee

By: _____
Authorized Signatory

[FORM OF ASSIGNMENT]

ASSIGNMENT

For value received the undersigned hereby sells, assigns and transfers unto _____

(Name, Address and Tax Identification or
Social Security Number of Assignee)

the within registered Bond and hereby irrevocably constitute(s) and appoint(s) _____
_____, attorney, to transfer the same on the
registration books of the Trustee with full power of substitution in the premises.

Dated: _____, 20__

Note: The signature(s) on this assignment
must correspond with the name(s) as written on
the face of the within Bond in every particular
without alteration or enlargement or any
change whatsoever.

Signature Guaranteed:

Note: Signature(s) must be guaranteed by an
eligible guarantor institution.

[FORM OF DTC LEGEND TO APPEAR ON BONDS]

Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC"), to the Trustee for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL inasmuch as the registered owner hereof Cede & Co., has an interest herein.

FIRST SUPPLEMENTAL INSTALLMENT PURCHASE CONTRACT

by and between the

CITY OF STOCKTON

and the

STOCKTON PUBLIC FINANCING AUTHORITY

RELATING TO THE
CITY OF STOCKTON
2010 WATER PROJECT

Dated as of September 1, 2013

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FIRST SUPPLEMENTAL INSTALLMENT PURCHASE CONTRACT

This First Supplemental Installment Purchase Contract (this “First Supplement”), dated as of September 1, 2013, by and between the City of Stockton, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California and its charter (the “City”), and the Stockton Public Financing Authority, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the “Authority”);

WITNESSETH:

WHEREAS, the City is authorized by law to purchase improvements for the municipal water system of the City; and

WHEREAS, the City previously determined that the purchase of certain improvements constituting a portion of the Delta Water Supply Project (the “2010 Water Project”) to the municipal water system of the City (the “Water System”) was necessary and proper for the City and was in the public interest, and that providing funds for paying the costs of the acquisition and construction of the 2010 Water Project to be sold by the Authority to the City by the issuance of the Authority’s Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Bonds”) would result in demonstrable savings in borrowing costs of the City and would accelerate the purchase of the 2010 Water Project by the City and will result in significant public benefits to the City; and

WHEREAS, in order to achieve the foregoing, the Authority previously agreed to sell the 2010 Water Project to the City, and the City previously agreed to purchase the 2010 Water Project from the Authority, as provided in the Installment Purchase Contract, dated as of October 1, 2010 (the “Installment Purchase Contract”), between the City and the Authority; and

WHEREAS, the City has exercised its election to convert the interest rate period of the Bonds on September __, 2013 (the “Conversion”) and, in connection with such Conversion, the Bonds will be subject to mandatory tender and remarketing; and

WHEREAS, in connection with the Conversion, the City and the Authority have determined that it is necessary to make certain amendments to the Installment Purchase Contract as set forth in this First Supplement to become effective on the mandatory tender and remarketing of the Bonds; and

WHEREAS, the City and the Authority hereby certify that all acts, conditions and things required by law to exist, to have happened and to have been performed precedent to and in connection with the execution and entering into of this First Supplement do exist, have happened and have been performed in regular and due time, form and manner as required by law, and the parties hereto are now duly authorized to execute and enter into this First Supplement;

NOW, THEREFORE, IN CONSIDERATION OF THE PREMISES AND OF THE MUTUAL AGREEMENTS AND COVENANTS CONTAINED HEREIN AND FOR OTHER VALUABLE CONSIDERATION, THE PARTIES HERETO DO HEREBY AGREE AS FOLLOWS:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. All terms which are defined in Section 1.01 of the Installment Purchase Contract shall (except as otherwise provided herein) have the same definitions, respectively, in this First Supplement that are given to such terms in Section 1.01 of the Installment Purchase Contract.

ARTICLE II

AMENDMENT OF THE INSTALLMENT PURCHASE CONTRACT

SECTION 2.01. Amendment of Section 3.01(a) of the Installment Purchase Contract. Section 3.01(a) of the Installment Purchase Contract is hereby amended to read in full as follows (additions shown in ***bold italicized*** text and deletions shown in ~~strikethrough~~ text for convenience):

“(a) The Purchase Price to be paid by the City hereunder to the Authority for the purchase of the 2010 Water Project is ~~\$55,000,000~~ \$_____, payable in installments of principal together with interest on the unpaid principal balance thereof as provided in Section 3.01(b) (subject in each case to any right of prepayment provided herein), plus the Reserve Fund deposits required pursuant to Section 4.02, which may be credited to the Installment Payments as provided herein.”

SECTION 2.02. Amendment of Exhibit A to the Installment Purchase Contract. Exhibit A to the Installment Purchase Contract is hereby replaced with Exhibit A to this First Supplement.

ARTICLE III

MISCELLANEOUS

SECTION 3.01. Authority for First Supplement. This First Supplement is supplemental to and is executed in accordance with Section 5.01(b) of the Installment Purchase Contract and in all respects not inconsistent with the terms and provisions of this First Supplement, the Installment Purchase Contract is hereby ratified, approved and confirmed and the Installment Purchase Contract, as so amended hereby, and this First Supplement shall be read, taken and construed as one and the same instrument.

SECTION 3.02. Effective Date of First Supplement. This First Supplement shall take effect from and after its execution and delivery and upon the mandatory tender and remarketing of the Bonds on September __, 2013.

SECTION 3.03. Execution in Several Counterparts. This First Supplement may be executed in any number of counterparts and each of such counterparts shall for all

purposes be deemed to be an original; and all such counterparts, or as many of them as the Authority and the City shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have executed this First Supplemental Installment Purchase Contract by their officers thereunto duly authorized as of the day and year first written above.

CITY OF STOCKTON

By _____
Chief Financial Officer

STOCKTON PUBLIC FINANCING AUTHORITY

By _____
Treasurer

EXHIBIT A
INSTALLMENT PAYMENT SCHEDULE

<u>Installment Payment Date</u> <u>(October 1)</u>	<u>Principal Component</u>
	\$

\$ _____
STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A (DELTA WATER SUPPLY PROJECT)

BOND PURCHASE CONTRACT

_____, 2013

Stockton Public Financing Authority
 c/o City of Stockton
 425 North El Dorado Street
 Stockton, California 95202

Ladies and Gentlemen:

Citigroup Global Markets Inc. (the “Underwriter”), acting on behalf of itself and not as an agent or representative of you, offers to enter into the following Bond Purchase Contract (the “Purchase Contract”) with the Stockton Public Financing Authority (the “Authority”), a joint powers authority created by a Joint Exercise of Powers Agreement dated as of June 18, 1990 (“JPA Agreement”) between the City of Stockton (the “City”) and the Redevelopment Agency of the City of Stockton, which, upon acceptance of this offer by the Authority (and approval by the City) will be binding upon the Authority and the Underwriter. This offer is made subject to acceptance of this Purchase Contract by the Authority on or before 11:59 p.m. San Francisco time on the date hereof, and, if not so accepted, will be subject to withdrawal by the Underwriter upon written notice delivered to the Authority at any time prior to such acceptance.

Capitalized terms used in this Purchase Contract and not otherwise defined herein shall have the meanings given to such terms as set forth in the Indenture (defined below).

Section 1. Upon the terms and conditions and upon the basis of the representations set forth in this Purchase Contract, the Underwriter agrees to remarket, all (but not less than all) of the \$_____ principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Bonds”). The Bonds are dated October 21, 2010, the original date of issuance thereof, and shall have the maturities and bear interest at the rates per annum as set forth on Schedule I attached hereto.

The remarketing price of the Bonds shall be \$_____ (consisting of the \$_____ aggregate principal amount of the Bonds, plus net original issue premium in the amount of \$_____ less a remarketing fee of \$_____).

Section 2. The Authority previously delivered to the Underwriter a Preliminary Remarketing Memorandum dated _____, 2013 (the “Preliminary Remarketing Memorandum”) and will deliver to the Underwriter a final Remarketing Memorandum dated the date hereof as provided in Section 5 of this Purchase Contract (as amended and supplemented from time to time pursuant to Section 6 and Section 7 of this Purchase Contract, the “Remarketing Memorandum”).

The Authority and the City have previously delivered to the Underwriter a certificate relating to the Preliminary Remarketing Memorandum, in substantially the form attached hereto as Exhibits A-1 and A-2.

Section 3. The Bonds shall be as described in and shall be secured under and remarketed pursuant to an Indenture (the “Original Indenture”) executed and entered into as of October 1, 2010 by and between the Authority and Wells Fargo Bank, National Association, as trustee (the “Trustee”), as amended by the First Supplemental Indenture, dated as of September 1, 2013, by and between the Authority and the Trustee (the “First Supplemental Indenture” and together with the Original Indenture, the “Indenture”). The Bonds are payable and subject to redemption as provided in the Indenture and as set forth in the Remarketing Memorandum. The Bonds are limited obligations of the Authority payable solely from the revenues consisting of Installment Payments (the “2010A Installment Payments”) to be made by the City of Stockton (the “City”) under an Installment Purchase Contract, dated as of October 1, 2010 (the “Original Installment Purchase Contract”), between the Authority and the City, as amended by the First Supplemental Installment Purchase Contract, dated as of September 1, 2013, by and between the City and the Authority (the “First Supplemental Installment Purchase Contract” and together with the Original Installment Purchase Contract, the “Installment Purchase Contract”). As security for the payment of the 2010A Installment Payments, the City has pledged System Revenues (as that term is defined in the Installment Purchase Contract) derived from the operation of the Water System remaining after the payment of operation and maintenance costs. The 2010A Installment Payments are payable from Net System Revenues on a parity with \$_____ aggregate principal amount of Existing Parity Lien Obligations as more specifically described in the Remarketing Memorandum.

Section 4. It shall be a condition to the obligation of the Underwriter to remarket the Bonds that the entire \$_____ principal amount of the Bonds to be outstanding under the Indenture after the remarketing shall be remarketed on the date of the Closing. The Underwriter agrees to make an initial bona fide public offering of all of the Bonds, at not in excess of the initial public offering yields or prices set forth on Schedule I attached hereto, however, the Bonds may be offered and sold to certain dealers (including dealers depositing the Bonds into investment trusts) at prices lower than such initial public offering prices or yields. Following the initial public offering of the Bonds, the offering prices may be changed from time to time by the Underwriter.

Section 5. The Authority hereby authorizes the use of the Remarketing Memorandum by the Underwriter in connection with the remarketing of the Bonds. The Authority consents to the use by the Underwriter prior to the date hereof of the Preliminary Remarketing Memorandum in connection with the remarketing of the Bonds. As of its date, the Preliminary Remarketing Memorandum has been deemed “final” by the Authority for purposes of Securities and Exchange Commission Rule 15c2-12(b)(1) (the “Rule”), except for the omission of certain information permitted to be omitted by such Rule. The Authority will supply or cause to be supplied to the Underwriter, within [seven] business days of the date of this Purchase Contract and in time to accompany any confirmation that requests payment from any customer, the Remarketing Memorandum in sufficient quantity as requested by the Underwriter to comply with Securities and Exchange Commission Rule 15c2-12(b)(4) and the rules of the Municipal Securities Rulemaking Board (the “MSRB”), complete as of its date of delivery (as amended and supplemented from time to time pursuant to Section 6(h) of this Purchase Contract, the “Remarketing Memorandum”). The Underwriter hereby agrees that it will not send any confirmation requesting payment for the purchase of any Bonds unless the confirmation is accompanied by or preceded by the delivery of a copy of the Remarketing Memorandum. The Underwriter agrees to: (1) provide the Authority with final pricing

information on the Bonds on a timely basis prior to the date of the Closing, (2) promptly file a copy of the Remarketing Memorandum, including any supplements prepared by the Authority with a nationally recognized municipal securities information repository, (3) promptly notify the Authority of the end of the underwriting period (as such term is defined in Rule 15c2-12), and (4) take any and all other actions necessary to comply with applicable Securities and Exchange Commission rules and MSRB rules governing the remarketing of the Bonds.

Section 6. The Authority represents and warrants to and agrees with the Underwriter that:

(a) The Authority has taken official action by Resolution No. -PFA-13-__ (the “Authority Resolution”), a resolution adopted by a majority of the members of the Board at a meeting duly called, noticed and conducted, at which a quorum was present and acting throughout, on ____, 2013, all action necessary to be taken by it for (1) the execution and delivery of the Reoffering Memorandum, the First Supplemental Indenture, the First Supplemental Installment Purchase Contract, the Tax Certificate of the Authority and the City dated as of the date of the remarketing of the Bonds (the “Tax Certificate”) and this Purchase Contract (collectively, the “Authority Agreements”), (2) the due performance by the Authority of the Authority Agreements, the Indenture and the Installment Purchase Contract and (3) the taking of any and all such action as may be required on the part of the Authority to carry out, give effect to and consummate the transactions contemplated hereby;

(b) The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California (the “State”) and the JPA Agreement and has all necessary power and authority to adopt the Authority Resolution, to enter into the Authority Agreements and perform its duties under the Authority Agreements, the Indenture and the Installment Purchase Contract. When the Authority Agreements are executed and delivered by the respective parties thereto, the Authority Agreements, the Indenture and the Installment Purchase Contract will each constitute a legal, valid and binding obligation of the Authority enforceable in accordance with its respective terms;

(c) By official action of the Authority prior to or concurrently with the acceptance hereof, the Authority has duly approved the First Supplemental Indenture and the First Supplemental Installment Purchase Contract, has duly authorized and approved the Preliminary Remarketing Memorandum and the Remarketing Memorandum, has duly authorized and approved the execution and delivery of, and the performance by the Authority of the obligations contained in, the Authority Agreements, and has duly authorized and approved the performance of its obligations contained in the Indenture and the consummation by it of all other transactions contemplated by the Remarketing Memorandum;

(d) The execution and delivery of each of the Authority Agreements have been duly authorized by the Authority; the Purchase Contract has been duly executed and delivered by the Authority; and the Purchase Contract and the Bonds constitute, legal, valid and binding obligations of the Authority enforceable in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or creditors’ rights generally; and the execution and delivery of the Authority Agreements, and compliance with the provisions of each thereof, the Bonds, the Indenture and the Installment Purchase Contract will not conflict with or constitute a breach of or a default under any applicable law or administrative regulation of the State of California or the United

States, or any applicable judgment, decree, agreement or other instrument to which the Authority is a party or is otherwise subject;

(e) Promptly after the Remarketing Memorandum is available in final form, the Authority shall deliver or cause to be delivered to the Underwriter copies of the Remarketing Memorandum manually signed by a duly authorized officer of the Authority and, within seven business days after the Authority's acceptance hereof, a sufficient number of copies of the printed final Remarketing Memorandum as the Underwriter shall request (not to exceed 150);

(f) At the time of the Authority's acceptance hereof and at all times subsequent thereto up to and including the time of the Closing, the Remarketing Memorandum does not and will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(g) To the best knowledge of the Authority as of the date hereof, except as disclosed in the Remarketing Memorandum, there is no action, suit, proceeding or investigation before or by any court, public board or body pending or threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the Authority, or the titles of its members or officers, (ii) enjoin or restrain the remarketing of the Bonds, the collection of the rates and charges for the Water System or the use of any monies pledged under the Indenture for the payment of the Bonds, (iii) in any way question or affect any of the rights, powers, duties or obligations of the Authority with respect to the monies pledged or to be pledged to pay the principal of, premium, if any, or interest on the Bonds, (iv) in any way question or affect any authority for the remarketing of the Bonds, or the validity or enforceability of the Bonds, the Authority Agreements, the Indenture or the Installment Purchase Contract, or (v) in any way question or affect the Purchase Contract or the transactions contemplated by the Purchase Contract, the Remarketing Memorandum, the documents referred to in the Remarketing Memorandum, or any other agreement or instrument to which the Authority is a party relating to the Bonds;

(h) For not more than 25 days from the end of the "underwriting period" (as defined in Securities and Exchange Commission Rule 15c2-12(e)(2)), if, in the reasonable opinion of Orrick Herrington & Sutcliffe LLP ("Disclosure Counsel"), and the City Attorney of the City (as counsel to the Authority), any event shall occur as a result of which it is necessary to amend or supplement the Remarketing Memorandum in order to make the statements therein not misleading in light of the circumstances existing at the time it is delivered to a purchaser, the Authority will forthwith prepare and furnish to the Underwriter a reasonable number of copies of any amendment of or supplement to the Remarketing Memorandum (in form and substance satisfactory to Disclosure Counsel and the City Attorney of the City as counsel to the Authority) which will amend or supplement the Remarketing Memorandum so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Remarketing Memorandum is delivered to a purchaser, not misleading. For the purposes of this subsection (h), the Authority will furnish to the Underwriter such information as it may from time to time request. The Authority may assume that the "end of the underwriting period" for purposes of Securities and Exchange Commission 15c2-12 will occur on the date of Closing unless otherwise notified, in writing, by the Underwriter on or prior to the date of Closing.

If the Remarketing Memorandum is supplemented or amended pursuant to this Section 2(h), at the time of each supplement or amendment thereto and (unless subsequently again supplemented

or amended pursuant to such paragraph) at all times subsequent thereto up to and including the date of the Closing, the Remarketing Memorandum as so supplemented or amended will not contain, to the best of the Authority's knowledge, any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(i) The Authority will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request, to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate, and will assist, if necessary therefor, in the continuation of such qualifications in effect as long as required for the distribution of the Bonds; provided, however, that the Authority shall not be required to qualify as a foreign corporation or to file any general consents to service of process under the laws of any state;

(j) Except as may be required under Blue Sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the Authority required for the execution and delivery of the Purchase Contract or the remarketing of the Bonds or the consummation by the Authority of the other transactions contemplated by the Remarketing Memorandum, the Authority Agreements, the Indenture or the Installment Purchase Contract;

(k) Any certificate signed by any official of the Authority authorized to do so shall be deemed a representation and warranty by the Authority to the Underwriter as to the statements made therein;

(l) The Authority shall apply the proceeds of the remarketing of the Bonds, including the investment earnings thereon, in accordance with the Indenture and as described in the Remarketing Memorandum; and

(m) Except as disclosed in the Remarketing Memorandum, the Authority is not in default, and at no time has defaulted in any material respect, on any bond, note or other obligation for borrowed money or any agreement under which any such obligation is or was outstanding.

Section 7. The City represents and warrants to the Underwriter that:

(a) The City Council of the City has taken official action by Resolution No. 13-___ (the "City Resolutions") adopted by a majority of its members at meetings duly called, noticed and conducted, at which a quorum was present and acting throughout, on ____, 2013, respectively, all action necessary to be taken by it for (1) the execution and delivery of the First Supplemental Installment Purchase Contract, the Tax Certificate dated the date hereof, and this Purchase Contract (collectively, the "City Agreements"), (2) the due performance of the City Agreements and the Installment Purchase Contract and (3) the taking of any and all such action as may be required on the part of the City to carry out, give effect to and consummate the transactions contemplated hereby;

(b) The City is a charter city duly organized and existing under the Constitution and laws of the State and has all necessary power and authority to adopt the City Resolutions, to enter into and perform its duties under the City Agreements and, when the City Agreements are executed and delivered by the respective parties thereto, the City Agreements and the Installment Purchase

Contract will each constitute legal, valid and binding obligation of the City enforceable in accordance with its respective terms;

(c) By official action of the City prior to or concurrently with the acceptance hereof, the City has duly approved the City Agreements, has duly authorized and approved the Preliminary Remarketing Memorandum and the Remarketing Memorandum, has duly authorized and approved the execution and delivery of the City Agreements, and the performance by the City of the obligations contained in, the City Agreements and the Installment Purchase Contract and the consummation by it of all other transactions contemplated by the Remarketing Memorandum;

(d) The execution and delivery of each of the City Agreements have been duly authorized by the City; the Purchase Contract has been duly executed and delivered by the City; and the Purchase Contract and the Bonds constitute, legal, valid and binding obligations of the City enforceable in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency, moratorium or creditors' rights generally; and the execution and delivery of the City Agreements, and compliance with the provisions of each thereof will not conflict with or constitute a breach of or a default under any applicable law or administrative regulation of the State or the United States, or any applicable judgment, decree, agreement or other instrument to which the City is a party or is otherwise subject;

(e) At the time of the City's acceptance hereof and at all times subsequent thereto up to and including the time of the Closing, the Remarketing Memorandum does not and will not contain any untrue statement of a material fact concerning the City or omit to state a material fact concerning the City required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(f) To the best knowledge of the City as of the date hereof, except as disclosed in the Remarketing Memorandum, there is no action, suit, proceeding or investigation before or by any court, public board or body pending or threatened, wherein an unfavorable decision, ruling or finding would: (i) affect the creation, organization, existence or powers of the City, or the titles of its members or officers, (ii) enjoin or restrain the remarketing of the Bonds, the collection of the rates and charges for the water system or the use of any other monies or properties pledged under the Installment Purchase Contract for the payment of the 2010A Installment Payments or the Indenture for the payment of the Bonds, (iii) in any way question or affect any of the rights, powers, duties or obligations of the City with respect to the monies pledged or to be pledged to pay the principal of, premium, if any, or interest on the Bonds, (iv) in any way question or affect any authority for the remarketing of the Bonds, or the validity or enforceability of the Bonds, the City Agreements the Indenture or the Installment Purchase Contract, or (v) in any way question or affect the Purchase Contract or the transactions contemplated by the Purchase Contract, the City Agreements, the documents referred to in the Remarketing Memorandum, or any other agreement or instrument to which the City is a party relating to the Bonds;

(g) For not more than 25 days from the end of the "underwriting period" (as defined in Securities and Exchange Commission Rule 15c2-12(e)(2)), if, in the reasonable opinion of Disclosure Counsel and the City Attorney of the City, any event shall occur as a result of which it is necessary to amend or supplement the Remarketing Memorandum in order to make the statements therein not misleading in light of the circumstances existing at the time it is delivered to a purchaser, the City will cause the Authority to forthwith prepare and furnish to the Underwriter a reasonable number of copies of any amendment of or supplement to the Remarketing Memorandum (in form

and substance satisfactory to Disclosure Counsel and the City Attorney of the City) which will amend or supplement the Remarketing Memorandum so that it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time the Remarketing Memorandum is delivered to a purchaser, not misleading. For the purposes of this subsection (g), the City will furnish to the Underwriter such information as it may from time to time request. The City may assume that the “end of the underwriting period” for purposes of Securities and Exchange Commission 15c2-12 will occur on the date of Closing unless otherwise notified, in writing, by the Underwriter on or prior to the date of Closing.

If the Remarketing Memorandum is supplemented or amended pursuant to this Section 2(g), at the time of each supplement or amendment thereto and (unless subsequently again supplemented or amended pursuant to such paragraph) at all times subsequent thereto up to and including the date of the Closing, the Remarketing Memorandum as so supplemented or amended will not contain, to the best of the City’s knowledge, any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(h) The City will furnish such information, execute such instruments and take such other action in cooperation with the Underwriter as the Underwriter may reasonably request, to qualify the Bonds for offer and sale under the Blue Sky or other securities laws and regulations of such states and other jurisdictions of the United States as the Underwriter may designate, and will assist, if necessary therefor, in the continuation of such qualifications in effect as long as required for the distribution of the Bonds; provided, however, that the City shall not be required to qualify as a foreign corporation or to file any general consents to service of process under the laws of any state;

(i) Except as may be required under Blue Sky or other securities laws of any state, there is no consent, approval, authorization or other order of, or filing or registration with, or certification by, any regulatory authority having jurisdiction over the City required for the execution and delivery of the Purchase Contract or the remarketing of the Bonds or the consummation by the City of the other transactions contemplated by the Remarketing Memorandum, the City Agreements, the Indenture or the Installment Purchase Contract;

(j) Any certificate signed by any official of the City authorized to do so shall be deemed a representation and warranty by the City to the Underwriter as to the statements made therein;

(k) Except as disclosed in the Remarketing Memorandum, the City is not in default, and at no time has defaulted in any material respect, on any bond, note or other obligation for borrowed money or any agreement under which any such obligation is or was outstanding;

(l) Except as disclosed in the Remarketing Memorandum, there has not been any materially adverse change in the financial condition of the Water Utility Enterprise Fund since June 30, 2012 and there has been no occurrence, circumstance or combination thereof which is reasonably expected to result in any such materially adverse change;

(m) The City will undertake, pursuant to a Continuing Disclosure Certificate dated as of the date of the initial delivery of the Bonds (the “Continuing Disclosure Certificate”), to provide certain annual financial information and notices of the occurrence of certain events. A description of

this undertaking is set forth in the Preliminary Remarketing Memorandum and will also be set forth in the final Remarketing Memorandum; and

(n) Except as disclosed in the Remarketing Memorandum, the City has never defaulted, in a material manner, under any of its previous continuing disclosure undertakings.

Section 8. At 8:00 A.M., San Francisco time, on _____, 2013, or on such later date as may be agreed upon by the Underwriter and the Authority, the [Tender Agent] will deliver or cause to be delivered to the Underwriter, through the facilities of DTC, the Bonds, duly executed, and at the offices of Orrick Herrington & Sutcliffe LLP (“Bond Counsel”) in San Francisco, California, or such other place as shall have been mutually agreed upon by the Underwriter and the Authority, the other documents described herein, and the Underwriter shall pay the remarketing price of the Bonds as set forth in Section 1 of this Purchase Contract in immediately available funds to the order of the Trustee.

The Bonds have been issued in fully registered form. It is anticipated that CUSIP identification numbers will be inserted on the Bonds, but neither the failure to provide such numbers nor any error with respect thereto shall constitute a cause for failure or refusal by the Underwriter to accept delivery of the Bonds in accordance with the terms of this Purchase Contract.

Section 9. The Underwriter has entered into this Purchase Contract in reliance upon the representations, warranties and agreements of the Authority and the City contained herein and to be contained in the documents and instruments to be delivered at the Closing, and upon the performance by each of the Authority and the City of their respective obligations hereunder, both as of the date hereof and as of the date of the Closing. Accordingly, the Underwriter’s obligations under this Purchase Contract to remarket the Bonds shall be subject to the performance by the Authority of its obligations to be performed hereunder and under such documents and instruments at or prior to the Closing, and shall also be subject to the following conditions:

(a) The representations and warranties of the Authority and the City contained herein shall be true, complete and correct on the date hereof and on and as of the date of the Closing, as if made on the date of the Closing;

(b) At the time of the Closing, the Indenture, the Installment Purchase Contract and the Tax Certificate shall be in full force and effect, and shall not have been amended, modified or supplemented, except as may have been agreed to by the Authority and Underwriter, (ii) the Authority shall perform or have performed all of its obligations required under or specified in the Authority Agreements, the Indenture or the Installment Purchase Contract to be performed at or prior to the date of the Closing, and (iii) the City shall perform or have performed all of its obligations required under or specified in the City Agreements and the Installment Purchase Contract to be performed at or prior to the date of the Closing;

(c) As of the date of the Closing, all necessary official action of the Authority relating to the Authority Agreements and all necessary official actions of the City relating to the City Agreements, shall have been taken and shall be in full force and effect and shall not have been amended, modified or supplemented in any material respect;

(d) The Underwriter shall have the right to terminate the Underwriter's obligations under this Purchase Contract to purchase, to accept delivery of and to pay for the Bonds by notifying the Authority of its election to do so if, after the execution hereof and prior to the Closing:

(i) legislation shall be introduced in, enacted by, reported out of committee, or recommended for passage by the State of California, either House of the Congress, or recommended to the Congress or otherwise endorsed for passage (by press release, other form of notice or otherwise) by the President of the United States, the Treasury Department of the United States, the Internal Revenue Service or the Chairman or ranking minority member of the Committee on Finance of the United States Senate or the Committee on Ways and Means of the United States House of Representatives, or legislation is proposed for consideration by either such committee by any member thereof or presented as an option for consideration by either such committee by the staff or such committee or by the staff of the Joint Committee on Taxation of the Congress of the United States, or a bill to amend the Code (which, if enacted, would be effective as of a date prior to the Closing) shall be filed in either House, or a decision by a court of competent jurisdiction shall be rendered, or a regulation or filing shall be issued or proposed by or on behalf of the Department of the Treasury or the Internal Revenue Service of the United States, or other agency of the federal government, or a release or official statement shall be issued by the President, the Department of the Treasury or the Internal Revenue Service of the United States, in any such case with respect to or affecting (directly or indirectly) the taxation of interest received on obligations of the general character of the Bonds which, in the opinion of the Underwriter, materially adversely affects the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriter of the Bonds; or

(ii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national or international emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the reasonable judgment of the Underwriter, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Remarketing Memorandum; or

(iii) there shall have occurred a general suspension of trading, minimum or maximum prices for trading shall have been fixed and be in force or maximum ranges or prices for securities shall have been required on the New York Stock Exchange or other national stock exchange whether by virtue of a determination by that Exchange or by order of the Securities and Exchange Commission or any other governmental agency having jurisdiction or any national securities exchange shall have: (1) imposed additional material restrictions not in force as of the date hereof with respect to trading in securities generally, or to the Bonds or similar obligations; or (2) materially increased restrictions now in force with respect to the extension of credit by or the charge to the net capital requirements of underwriters or broker-dealers such as to make it, in the judgment of the Underwriter, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Remarketing Memorandum; or

(iv) a stop order, ruling, regulation, proposed regulation or statement by or on behalf of the Securities and Exchange Commission or any other governmental agency having jurisdiction of the subject matter shall be issued or made to the effect that the issuance, offering, sale or distribution of obligations of the general character of the Bonds is in violation or would be in violation of any provisions of the Securities Act of 1933, as amended, the Securities Exchange Act of 1934, as amended or the Trust Indenture Act of 1939, as amended; or

(v) legislation introduced in or enacted (or resolution passed) by the Congress or an order, decree, or injunction issued by any court of competent jurisdiction, or an order, ruling, regulation (final, temporary, or proposed), press release or other form of notice issued or made by or on behalf of the Securities and Exchange Commission, or any other governmental agency having jurisdiction of the subject matter, to the effect that obligations of the general character of the Bonds, including any or all underlying arrangements, are not exempt from registration under or other requirements of the Securities Act of 1933, as amended (the "Securities Act"), or that the Indenture is not exempt from qualification under or other requirements of the Trust Indenture Act of 1939, as amended, or that the issuance, offering, or sale of obligations of the general character of the Bonds, including any or all underlying arrangements, as contemplated hereby or by the Remarketing Memorandum or otherwise, is or would be in violation of the federal securities law as amended and then in effect; or

(vi) in the reasonable judgment of the Underwriter, the market price of the Bonds, or the market price generally of obligations of the general character of the Bonds, might be materially and adversely affected because additional material restrictions not in force as of the date hereof shall have been imposed upon trading in securities generally by any governmental authority or by any national securities exchange; or

(vii) the Comptroller of the Currency, The New York Stock Exchange, or other national securities exchange, or any governmental authority, shall impose, as to the Bonds or obligations of the general character of the Bonds, any material restrictions not now in force, or increase materially those now in force, with respect to the extension of credit by, or the charge to the net capital requirements of, or financial responsibility requirements of the Underwriter; or

(viii) a general banking moratorium shall have been declared by federal or New York or California state authorities or a major financial crisis or a material disruption in commercial banking or securities settlement or clearances services shall have occurred such as to make it, in the judgment of the Underwriter, impractical or inadvisable to proceed with the offering of the Bonds as contemplated in the Remarketing Memorandum; or

(ix) (1) a downgrading or suspension of any rating (without regard to credit enhancement) by Moody's Investors Service, Inc. ("Moody's"), Standard & Poor's ("S&P"), or Fitch Ratings ("Fitch") of any debt securities issued by the City secured by or payable from System Revenues or Net System Revenues or by the Authority secured by or payable from a contractual or other obligation of the City which is secured by or payable from System Revenues or Net System Revenues, or (2) there shall have been any official statement as to a possible downgrading (such as being placed on "credit watch" or "negative outlook" or any similar qualification) of any rating without regard to credit enhancement by Moody's, S&P or Fitch of any debt securities issued by the Authority or the City, described in clause (1) above, including the Bonds; or

(x) any legislation, ordinance, rule or regulation shall be introduced in or be enacted by any governmental body, department or agency in the State or a decision of a court of competent jurisdiction within the State shall be rendered, which, in the opinion of the Underwriter, after consultation with the Authority, materially adversely affects the market price of the Bonds; or

(xi) an event shall occur which makes untrue or incorrect in any material respect, as of the time of such event, any statement or information contained in the Remarketing Memorandum or which is not reflected in the Remarketing Memorandum but should be reflected

therein in order to make the statements contained therein not misleading in any material respect and requires an amendment of or supplement to the Remarketing Memorandum and the effect of which, in the judgment of the Underwriter, would materially adversely affect the market for the Bonds or the sale, at the contemplated offering prices (or yields), by the Underwriter of the Bonds.

(e) At or prior to the Closing, the Underwriter shall have received each of the following documents:

(i) Certified copies of the Authority Resolution and the City Resolutions and executed originals of the Authority Agreements, the City Agreements, the Original Indenture and the Original Installment Purchase Contract;

(ii) The Preliminary Remarketing Memorandum and the Remarketing Memorandum, with the Remarketing Memorandum executed on behalf of the Authority by a duly authorized officer of the Authority;

(iii) The Continuing Disclosure Certificate, executed on behalf of the City by a duly authorized officer of the City;

(iv) An opinion of Bond Counsel, dated the date of Closing and addressed to the Underwriter, in substantially the form of Exhibit D;

(v) A certificate dated the date of the Closing and executed by a duly authorized officer of the Authority to the effect that:

(A) The representations and warranties of the Authority contained in Section 6 hereof are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing;

(B) To the best of their knowledge, no event affecting the Authority has occurred since the date of the Remarketing Memorandum which should be disclosed in the Remarketing Memorandum in order to make the statements therein not misleading in any material respect; and

(C) No litigation is pending or threatened (a) to restrain or enjoin the remarketing of the Bonds or the validity of the 2010A Installment Payments, (b) in any way contesting or affecting the validity of the Authority Agreements, the Indenture, the Installment Purchase Contract or the Bonds, or (c) in any way contesting the existence or powers of the Authority;

(vi) A certificate dated the date of Closing from a duly authorized official of the City to the effect that:

(A) The representations and warranties of the City contained in Section 7 hereof are true and correct in all material respects on and as of the date of the Closing as if made on the date of the Closing;

(B) To the best of their knowledge, no event effecting the City has occurred since the date of the Remarketing Memorandum which should be disclosed in the

Remarketing Memorandum in order to make the statements therein not misleading in any material respect; and

(C) No litigation is pending or threatened (a) to restrain or enjoin the remarketing of the Bonds or the validity of the 2010A Installment Payments, (b) in any way contesting or affecting the validity of the City Agreements, the Indenture, the Installment Purchase Contract or the Bonds, or (c) in any way contesting the existence or powers of the City;

(vii) An opinion of City Attorney, as counsel to the Authority, dated the date of Closing and addressed to the City, the Authority, Bond Counsel and the Underwriter, in substantially the form of Exhibit B;

(viii) An opinion of the City Attorney dated the date of Closing and addressed to the City, the Authority, Bond Counsel and the Underwriter in substantially the form of Exhibit C;

(ix) The opinion of Counsel to the Trustee dated the date of closing, addressed to the Authority, the City, the Trustee, and the Underwriter, to the effect that:

(A) the Trustee is a national banking association duly organized and validly existing and in good standing under the laws of the United States of America and has full power and authority to execute and deliver the First Supplemental Indenture and to perform its obligations under the Indenture; and

(B) the First Supplemental Indenture has been duly authorized, executed and delivered by the Trustee and the Indenture constitutes a valid and binding obligation of the Trustee enforceable against the Trustee in accordance with its terms, except as enforcement may be limited by bankruptcy, insolvency, moratorium or other similar laws or equitable principles relating to or limiting creditors' rights generally;

(x) A certificate of the Trustee, dated the date of the Closing, to the effect that:

(A) The Trustee is a national banking association duly existing under the laws of the United States of America, and has full power and is qualified to accept and comply with the terms of the Indenture, and to perform its obligations stated therein;

(B) The Trustee has accepted the duties and obligations imposed on it by the Indenture;

(C) No consent, approval, authorization or other action by any governmental or regulatory authority having jurisdiction over the Trustee that has not been obtained is or will be required for the consummation by the Trustee of the transactions contemplated by the Indenture to be undertaken by the Trustee;

(D) Compliance with the terms of the Indenture will not conflict with, or result in a violation or breach of, or constitute a default under, any loan agreement, indenture, bond, note, resolution or any other agreement or instrument to which the Trustee is a party or by which it is bound, or, to the best knowledge of the Trustee, after reasonable investigation, any law, rule, regulation, order or decree of any court or governmental agency or body having jurisdiction over the Trustee or any of its activities or properties (except that no representation, warranty or agreement is

made by the Trustee with respect to any Federal or state securities or Blue Sky laws or regulations); and

(E) To the best knowledge of the Trustee, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court or governmental agency, public board or body served on or threatened against or affecting the existence of the Trustee, or in any way contesting or affecting the validity or enforceability of the Bonds or the Indenture, or contesting the powers of the Trustee or its authority to enter into and perform its obligations under the Indenture or the Bonds, wherein an unfavorable decision, ruling or finding would adversely affect the validity of the Bonds or the Indenture or Escrow Agreement;

(xi) An opinion of Stradling Yocca Carlson & Rauth, A Professional Corporation (“*Underwriter’s Counsel*”) in form and substance satisfactory to the Underwriter;

(xii) A Tax Certificate of the Authority and the City, executed on behalf of the Authority and the City by their duly authorized officers;

(xiii) A copy of the executed Blanket Letter of Representations by and between the Authority and The Depository Trust Company, New York, New York, relating to the book-entry system for the Bonds;

(xiv) A letter from Standard & Poor’s Ratings Group, a Division of the McGraw-Hill Companies indicating that the Bonds have been rated “__” and a letter from Fitch Inc., doing business as Fitch Ratings indicating that the Bonds have been rated “__”; and

(xv) Such additional legal opinions, certificates, instruments and documents as the Underwriter may reasonably request to evidence the truth and accuracy, as of the date hereof and as of the date of the Closing, of the Authority’s and the City’s representations and warranties contained herein and of the statements and information contained in the Remarketing Memorandum and the due performance or satisfaction by the Authority and the City on or prior to the date of the Closing of all agreements then to be performed and all conditions then to be satisfied by the Authority and the City.

All of the opinions, letters, certificates, instruments and other documents mentioned above or elsewhere in this Purchase Contract shall be deemed to be in compliance with the provisions hereof if, but only if, they are in form and substance satisfactory to the Underwriter and Underwriter’s Counsel. Receipt of, and payment for, the Bonds shall constitute evidence of the satisfactory nature of such as to the Underwriter. The performance of any and all obligations of the Authority hereunder and the performance of any and all conditions contained herein for the benefit of the Underwriter may be waived by the Underwriter in its sole discretion.

If the Authority shall be unable to satisfy the conditions to the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds contained in this Purchase Contract, or if the obligations of the Underwriter to purchase, accept delivery of and pay for the Bonds shall be terminated for any reason permitted by this Purchase Contract, this Purchase Contract shall terminate, and neither the Underwriter nor the Authority shall be under further obligation hereunder, except that the respective obligations of the Authority and the Underwriter set forth in Section 10 hereof shall continue in full force and effect.

Section 10. (a) The Underwriter shall be under no obligation to pay, and the Authority shall pay the following expenses incident to the performance of the Authority's obligation hereunder: (i) the fees and disbursements of Bond Counsel and Disclosure Counsel; (ii) the cost of printing and delivering the Bonds, the Preliminary Remarketing Memorandum and the Remarketing Memorandum (and any amendment or supplement prepared pursuant to Section 2(b) of this Purchase Contract); (iii) the fees and disbursements of Del Rio Advisors, LLC, as Financial Advisor to the Authority and the City, accountants, advisers and of any other experts or consultants retained by the Authority; (iv) expenses (included in the expense component of the Underwriter's spread) incurred on behalf of the Authority's and City's officers or employees which are incidental to implementing this Purchase Contract, including, but not limited to, meals, transportation, lodging, and entertainment of those officers or employees; and (v) any other expenses and costs of the Authority incident to the performance of its obligations in connection with the remarketing of the Bonds, including out-of-pocket expenses and regulatory expenses, and any other expenses agreed to by the parties and expenses incurred on behalf of the City or Authority employees which are incidental to implementing this Purchase Contract, including but not limited to meals, transportation, lodging and entertainment.

(b) The Underwriter shall pay all expenses incurred by them in connection with the public offering and distribution of the Bonds including, but not limited to: (i) all advertising expenses in connection with the offering of the Bonds; (ii) the fees and expenses of Underwriter's Counsel; and (iii) all out-of-pocket disbursements and expenses incurred by the Underwriter in connection with the offering and distribution of the Bonds, except as provided in (a) above or as otherwise agreed to by the Underwriter and the Authority.

Section 11. Any notice or other communication to be given to the Authority under this Purchase Contract may be given by delivering the same in writing at the Authority's address set forth above, and any notice or other communication to be given to the Underwriter under this Purchase Contract may be given by delivering the same in writing to Citigroup Global Markets Inc., 1850 Maple Glen Road, Sacramento, California 95864; Attention: David Houston.

Section 12. This Purchase Contract is made solely for the benefit of the Authority and the Underwriter (including their successors and assigns), and no other person shall acquire or have any right hereunder or by virtue hereof. All of the Authority's representations, warranties and agreements contained in this Purchase Contract shall remain operative and in full force and effect regardless of: (a) any investigations made by or on behalf of the Underwriter; or (b) delivery of and payment for the Bonds pursuant to this Purchase Contract. The agreements contained in this Section and in Section 11 shall survive any termination of this Purchase Contract.

Section 13. In the event that any provision of this Purchase Contract shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision of this Purchase Contract.

Section 14. This Purchase Contract shall be governed by and interpreted under the laws of the State of California. This Purchase Contract shall be enforceable in the State and any action arising out of this Purchase Contract shall be filed with and maintained in San Joaquin County Superior Court, Stockton, California; *provided* that the Authority and the City may waive the requirement of venue.

Section 15. This Purchase Contract supplements and amends the Remarketing Agreement, dated as of October 1, 2010, by and among the City, the Authority and Citigroup Global Markets, Inc. (the “Remarketing Agent”) with respect to the obligations of the Remarketing Agent with respect to the remarketing of the Bonds, including but not limited to Section 3 thereof.

Section 16. This Purchase Contract may be executed in any number of counterparts, all of which taken together shall constitute one agreement, and any of the parties hereto may execute the Purchase Contract by signing any such counterpart.

Section 17. The Authority, the City and the Underwriter acknowledge and agree that (i) the remarketing of the Bonds pursuant to this Purchase Contract is an arm’s-length commercial transaction among the Authority, the City and the Underwriter, (ii) in connection therewith and with the discussions, undertakings and procedures leading up to the consummation of such transaction, the Underwriter is and has been acting solely as a principal and is not acting as the agent, advisor or fiduciary of the Authority or the City, (iii) the Underwriter has not assumed an advisory or fiduciary responsibility in favor of the Authority or the City with respect to the remarketing contemplated hereby or the discussions, undertakings and procedures leading thereto (irrespective of whether the Underwriter has provided other services or is currently providing other services to the Authority or the City on other matters) and the Underwriter has no contractual obligation to the Authority or the City with respect to the remarketing contemplated hereby except the contractual obligations expressly set forth in this Purchase Contract, (iv) the Underwriter is not acting as municipal advisor (as defined in Section 15B of the Securities Exchange Act of 1934, as amended), and (v) the Authority, the City and the Underwriter have consulted their own legal, financial and other advisors to the extent they deemed appropriate in connection with the remarketing of the Bonds. Nothing in the foregoing paragraph is intended to limit the Underwriter’s obligation of fair dealing to the City or the Authority under MSRB Rule G-17.

Very truly yours,

CITIGROUP GLOBAL MARKETS INC.

By: _____
David Houston, Managing Director

Accepted:

This __the day of _____, 2013

STOCKTON PUBLIC FINANCING AUTHORITY

By: _____
Vanessa Burke, Treasurer

Approved:

CITY OF STOCKTON

By: _____
Vanessa Burke, Chief Financial Officer

SCHEDULE I
MATURITIES, AMOUNTS, RATES AND PRICES
[TO COME]

EXHIBIT A-1

\$ _____
**STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A (DELTA WATER SUPPLY PROJECT)**

**FORM OF THE CERTIFICATE OF THE AUTHORITY
REGARDING PRELIMINARY REMARKETING MEMORANDUM**

The undersigned hereby states and certifies:

1. That she is the duly elected, qualified and acting Treasurer of the Stockton Public Financing Authority (the "Authority") and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

2. That there has been delivered to Citigroup Global Markets Inc.(the "Underwriter") of the captioned Bonds, a Preliminary Remarketing Memorandum, dated _____, 2013, including the cover page and all appendices thereto, in electronic form (the "Preliminary Remarketing Memorandum"), which the Authority deems final as of its date for purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934, as amended ("Rule 15c2-12"), except for information permitted to be omitted therefrom by Rule 15c2-12; and

3. The Authority hereby approves the use and distribution by the Underwriter of the Preliminary Remarketing Memorandum.

Dated: _____, 2013

STOCKTON PUBLIC FINANCING AUTHORITY

By: _____
Vanessa Burke
Treasurer

EXHIBIT A-2

\$ _____
**STOCKTON PUBLIC FINANCING AUTHORITY
VARIABLE RATE DEMAND WATER REVENUE BONDS,
SERIES 2010A (DELTA WATER SUPPLY PROJECT)**

**FORM OF THE CERTIFICATE OF THE CITY
REGARDING PRELIMINARY REMARKETING MEMORANDUM**

The undersigned hereby states and certifies:

1. That she is the duly elected, qualified and acting Chief Financial Officer of the City of Stockton (the "City") and as such, is familiar with the facts herein certified and is authorized and qualified to certify the same;

2. That there has been delivered to Citigroup Global Markets Inc.(the "Underwriter") of the captioned Bonds, a Preliminary Remarketing Memorandum, dated _____, 2013, including the cover page and all appendices thereto, in electronic form (the "Preliminary Remarketing Memorandum"), which the City which with respect to the information contained in the Preliminary Remarketing Memorandum under the captions "INTRODUCTION," "THE WATER PROJECT," "THE CITY," "THE WATER SYSTEM" and "WATER SYSTEM FINANCES" and contained in APPENDIX A-"GENERAL, DEMOGRAPHIC AND ECONOMIC INFORMATION RELATING TO THE CITY OF STOCKTON" and in APPENDIX B-"AUDITED FINANCIAL STATEMENTS OF CITY OF STOCKTON WATER UTILITY ENTERPRISE FUND" do not contain any untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading; and

3. The City hereby approves the use and distribution by the Underwriter of the Preliminary Remarketing Memorandum.

Dated: _____, 2013

CITY OF STOCKTON

By: _____

Vanessa Burke
Chief Financial Officer

EXHIBIT B
FORM OF OPINION OF AUTHORITY COUNSEL

[Letterhead of Counsel to Authority]

_____, 2013

Stockton Public Financing Authority
Stockton, California

City of Stockton
Stockton, California

Citigroup Global Markets Inc.
San Francisco, California

Orrick Herrington & Sutcliffe LLP
Sacramento, California

Re: Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds,
Series 2010A (Delta Water Supply Project)

Ladies and Gentlemen:

I have served as counsel to the Stockton Public Financing Authority (the “Authority”) in connection with the remarketing of \$_____ principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “Bonds”). As such counsel I have examined and am familiar with (i) those documents relating to the existence, organization and operation of the Authority, and (ii) all necessary documentation of the Authority relating to the authorization, execution and delivery of the Indenture, the Installment Purchase Contract, the Bond Purchase Contract, dated as of _____, 2013 (the “Purchase Contract”), among Citigroup Global Markets Inc., as underwriter, the City and the Authority relating to the Bonds, and the Remarketing Memorandum, dated _____, 2013 (the “Remarketing Memorandum”) relating to the Bonds. All terms used herein which are defined in the Purchase Contract shall have the meanings specified therein.

Based on the foregoing, I am of the opinion that:

1. The Authority is a joint exercise of power authority duly created, organized and existing under the laws of the State of California and has full legal right, power and authority to cause the Bonds to be remarketed.

2. The Authority has the full legal right, power and authority to execute and deliver the Authority Agreements and to perform its obligations and duties under the Authority Agreements, the

Indenture and the Installment Purchase Contract, and the Authority has complied with the provisions of applicable law in all matters relating to the transactions contemplated by the Authority Agreements, the Indenture and the Installment Purchase Contract.

3. The Authority Agreements have each been duly authorized, executed and delivered by the Authority, are in full force and effect and, assuming due authorization, execution and delivery by the other parties of the Authority Agreements, the Authority Agreements, the Indenture and the Installment Purchase Contract, constitute legal, valid and binding agreements of the Authority enforceable against the Authority in accordance with their terms, subject in each case to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought.

4. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the Authority of any of the Authority Agreements or the performance by the Authority of its obligations thereunder or under the Indenture and the Installment Purchase Contract or for the remarketing of the Bonds.

5. The execution and delivery of the Authority Agreements by the Authority, and compliance with the provisions thereof and of the Indenture and the Installment Purchase Contract, will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the Authority, or any commitment, agreement or other instrument to which the Authority is a party or by which it is or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which the Authority (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to the Authority and its affairs.

6. Based upon my review of the Remarketing Memorandum, and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Remarketing Memorandum, nothing has come to my attention which would lead me to believe that the Remarketing Memorandum (excluding therefrom the financial statements and the statistical data and the information concerning The Depository Trust Company, the book-entry system and the appendices thereto, as to which no opinion is expressed) as of its date and the date hereof contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

7. To the best of my knowledge, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before any court, public board or body pending or threatened against or affecting the Authority or any of its officers in their respective capacities as such which questions the powers of the Authority referred to in paragraph 2 above or in connection with the transactions contemplated by the Authority Agreements, the Indenture, the Installment Purchase Contract or the Remarketing Memorandum, or the validity of the proceedings taken by the Authority in connection with the authorization, execution or delivery of the Authority Agreements, wherein any unfavorable decision, ruling or finding would adversely affect the transactions contemplated thereby or by the Remarketing Memorandum, or which, in any way, would adversely affect the validity or enforceability of the Authority Agreements, the Indenture or the Installment Purchase Contract or, in any material respect, the ability of the Authority to perform its obligations under the Authority Agreements, the Indenture or the Installment Purchase Contract.

Very truly yours,

Counsel to the
Stockton Public Financing Authority

EXHIBIT C
FORM OF OPINION OF CITY ATTORNEY

[Letterhead of City Attorney]

_____, 2013

City of Stockton
Stockton, California

Stockton Public Financing Authority
Stockton, California

Citigroup Global Markets Inc.
San Francisco, California

Orrick Herrington & Sutcliffe LLP
Sacramento, California

Re: Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds,
Series 2010A (Delta Water Supply Project)

Ladies and Gentlemen:

I have served as City Attorney to the City of Stockton (the "City") in connection with the remarketing of \$_____ principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the "Bonds"). As such counsel I have examined and am familiar with (i) those documents relating to the existence, organization and operation of the City, and (ii) all necessary documentation of the City relating to the authorization, execution and delivery of the Installment Purchase Contract between the Authority and the City of Stockton (the "City"), the Bond Purchase Contract, dated as of _____, 2013 (the "Purchase Contract"), among Citigroup Global Markets Inc., as underwriter, the City and the Authority relating to the Bonds, and the Remarketing Memorandum, dated _____, 2013 (the "Remarketing Memorandum") relating to the Bonds. All terms used herein which are defined in the Purchase Contract shall have the meanings specified therein.

Based on the foregoing, I am of the opinion that:

1. The City is a charter city duly created, organized and existing under the Constitution and laws of the State of California.
2. The City has the full legal right, power and authority to execute and deliver the City Agreements and to perform its obligations and duties under the City Agreements and the Installment Purchase Contract, and the City has complied with the provisions of applicable law in all matters relating to the transactions contemplated by the City Agreements and the Installment Purchase Contract.
3. The City Agreements have each been duly authorized, executed and delivered by the City, are in full force and effect and, assuming due authorization, execution and delivery by the other parties of the City Agreement, the City Agreements and the Installment Purchase Contract, constitute legal, valid and binding agreements of the City enforceable against the City in accordance with their terms, subject in each case to laws relating to bankruptcy, insolvency or other laws affecting the enforcement of creditors' rights generally and to the application of equitable principles if equitable remedies are sought.
4. No approval, consent or authorization of any governmental or public agency, authority or person is required for the execution and delivery by the City of any of the City Agreements or the performance by the City of its obligations thereunder or under the Installment Purchase Contract or for the remarketing of the Bonds.
5. The execution and delivery of the City Agreements by the City, and compliance with the provisions thereof and of the Installment Purchase Contract, will not conflict with or constitute a breach of, or default under, any instrument relating to the organization, existence or operation of the City, or any commitment, agreement or other instrument to which the City is a party or by which it is or its property is bound or affected, or any ruling, regulation, ordinance, judgment, order or decree to which the City (or any of its officers in their respective capacities as such) is subject or any provision of the laws of the State of California relating to the City and its affairs.
6. Based upon my review of the Remarketing Memorandum, and without having undertaken to determine independently the accuracy, completeness or fairness of the statements contained in the Remarketing Memorandum, nothing has come to my attention which would lead me to believe that the Remarketing Memorandum (excluding therefrom the financial statements and the statistical data and the information concerning The Depository Trust Company, the book-entry system and the appendices thereto, as to which no opinion is expressed) as of its date and the date hereof contained or contains any untrue statement of a material fact or omitted or omits to state any material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

7. To the best of my knowledge, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, or before any court, public board or body pending or threatened against or affecting the City or any of its officers in their respective capacities as such which questions the powers of the City referred to in paragraph 2 above or in connection with the transactions contemplated by the City Agreements or the Remarketing Memorandum, or the validity of the proceedings taken by the City in connection with the authorization, execution or delivery of the City Agreements, wherein any unfavorable decision, ruling or finding would adversely affect the transactions contemplated thereby or by the Remarketing Memorandum, or which, in any way, would adversely affect the validity or enforceability of the City Agreements or the Installment Purchase Contract or, in any material respect, the ability of the City to perform its obligations under the City Agreements or the Installment Purchase Contract.

Very truly yours,

City Attorney
City of Stockton

EXHIBIT D
FORM OF SUPPLEMENTAL OPINION OF BOND COUNSEL AND DISCLOSURE
COUNSEL

[TO COME FROM OHS]

CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the City of Stockton (the “City”) in connection with the conversion to fixed rates by the City of \$_____ aggregate principal amount of Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (the “Bonds”). The Bonds were issued pursuant to an Indenture, dated as of October 1, 2010, as amended by a First Supplemental Indenture, dated as of September 1, 2013 (collectively, the “Indenture”), each between the Stockton Public Financing Authority and Wells Fargo Bank, National Association, as Trustee (the “Trustee”). The City covenants and agrees as follows:

SECTION 1. Purpose of this Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners and Beneficial Owners of the Bonds and to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” means any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Beneficial Owner” means any person that has or shares the power, directly or indirectly, to make investment decisions concerning the ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

“Dissemination Agent” means any entity designated in writing by the City to perform the duties specified in Section 3(c) of this Disclosure Certificate and which has filed with the City a written acceptance of such designation.

“EMMA” means the MSRB’s Electronic Municipal Market Access system.

“Listed Events” means any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” means the Municipal Securities Rulemaking Board.

“Participating Underwriter” means any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” means Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934.

SECTION 3. Provision of Annual Reports.

(a) The City shall, or shall cause the Dissemination Agent to, not later than nine (9) months after the end of the City’s Fiscal Year (presently June 30), commencing with the report for the 2012-13 Fiscal Year, provide to the MSRB through EMMA, in an electronic format and

accompanied by such identifying information as is prescribed by the MSRB, an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if the audited financial statements are not available by that date. If the City's fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5.

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the MSRB, the City shall provide the Annual Report to the Dissemination Agent (if other than the City). If the City provides the Annual Report to the Dissemination Agent pursuant to the preceding sentence, the City shall provide written certification to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent) that such Annual Report constitutes the Annual Report required to be furnished pursuant to this Disclosure Certificate. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the City and shall have no obligation to review such Annual Report. If the City is unable to provide an Annual Report to the MSRB through EMMA by the date required in subsection (a), the City shall send a notice to the MSRB through EMMA, in substantially the form attached as Exhibit A to this Disclosure Certificate.

(c) If the Dissemination Agent is other than the City, the Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the applicable electronic format for filings through EMMA;

(ii) file the Annual Report with the MSRB through EMMA by the date required therefor by Section 3(a) and file any notice of a Listed Event, if requested by the City, as soon as practicable following receipt from the City of such notice; and

(ii) file a report with the City and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or include by reference the following:

(a) The Statement of Net Assets, the Statement of Revenues, Expenditures and Changes in Fund Net Assets and the Statement of Cash Flows for the Water System for the prior Fiscal Year, prepared in accordance with generally-accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If such financial reports are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements contained in the final Remarketing Memorandum, dated September __, 2013, relating to the Bonds (the "Remarketing Memorandum"), and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

- (b) To the extent not presented in the audited financial statements:
- (i) A maturity schedule for the outstanding Bonds;
 - (ii) The balance in each of the following funds established pursuant to the Indenture as of the close of the prior Fiscal Year:
 - (A) total deposits in the Revenue Fund for the prior Fiscal Year (with a statement of the debt service requirement discharged by the Revenue Fund in the prior Fiscal Year);
 - (B) the Reserve Account (with a statement of the current Reserve Requirement and the name of the guaranteed investment contract provider, if any).
 - (iii) Information for the prior Fiscal Year substantially similar to that provided in the following tables of the Remarketing Memorandum:
 - (A) Table 3 – “Customer Base by Type of Account and Number of Connections;”
 - (B) Table 4 – “Ten Largest Accounts by Annual Consumption;”
 - (C) Table 5 – “Ten Largest Accounts by Revenue;”
 - (D) Table 12 – “Historical Connection Fee Revenues;”
 - (E) Table 14 – “Current and Adopted Rates;” and
 - (F) Table 18 – “Uncollectible Charges for Services.”
 - (iv) The current adopted budget for the Water System;
 - (v) Debt service schedules for any Parity Debt; and

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, that are available to the public from the MSRB’s internet website or filed with the Securities and Exchange Commission. The City shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Listed Events.

- (a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds not later than ten (10) business days after the occurrence of the event:
- (1) principal and interest payment delinquencies;

- (2) non-payment related defaults, if material;
- (3) unscheduled draws on any applicable debt service reserves reflecting financial difficulties;
- (4) unscheduled draws on credit enhancement reflecting financial difficulties;
- (5) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events adversely affecting the tax status of the Bonds;
- (6) modifications to rights of bondholders, if material;
- (7) substitution of credit or liquidity providers, or their failure to perform;
- (8) optional, contingent or unscheduled bond calls, if material, and tender offers;
- (9) defeasances;
- (10) release, substitution or sale of property securing repayment of the Bonds, if material;
- (11) rating changes;
- (12) bankruptcy, insolvency, receivership or similar event of the City;
- (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) appointment of a successor or additional Trustee or the change of name of the Trustee, if material.

For the purpose of the event identified in Section 5(a)(12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governmental body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental

authority having supervision or jurisdiction over substantially all of the assets or business of the City.

(b) The Dissemination Agent (if other than the City) shall, promptly upon obtaining actual knowledge at its office as specified in Section 12 hereof of the occurrence of any of the Listed Events, contact the City, inform such person of the event, and request that the City promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f); provided that, failure by the Dissemination Agent to so notify the City and make such request shall not relieve the City of its duty to report Listed Events as required by this Section 5.

(c) Whenever the City obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Dissemination Agent pursuant to subsection (b) or otherwise, the City shall determine as soon as possible if such event is required to be reported pursuant to this Section 5.

(d) If the City has determined that the occurrence of a Listed Event is required to be reported pursuant to this Section 5, the City shall, within the time prescribed by this Section 5, file a notice of such occurrence with the MSRB through EMMA in an electronic format and accompanied by such identifying information as is prescribed by the MSRB or promptly notify the Dissemination Agent (if other than the City) in writing. Such notice to the Dissemination Agent shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the City determines that the Listed Event is not required to be reported pursuant to this Section 5, the City shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence.

(f) If the Dissemination Agent has been instructed by the City to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the MSRB through EMMA in an electronic format and accompanied by such identifying information as is prescribed by the MSRB.

(g) The Dissemination Agent may conclusively rely on an opinion of counsel that the City's instructions to the Dissemination Agent under this Section 5 comply with the requirements of the Rule.

SECTION 6. Termination of Reporting Obligation. The obligations under this Disclosure Certificate shall terminate (a) upon the legal defeasance, prior redemption or payment in full of all of the Bonds or (b) if, in the opinion of nationally recognized bond counsel, the City ceases to be an "obligated person" (within the meaning of the Rule) with respect to the Bonds or the Bonds otherwise cease to be subject to the requirements of the Rule. If such termination occurs prior to the final maturity of the Bonds, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5.

SECTION 7. Dissemination Agent. The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor

Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the City pursuant to this Disclosure Certificate. If at any time there is not any other designated Dissemination Agent, the City shall be the Dissemination Agent. Any Dissemination Agent designated by the City may resign by providing thirty (30) days' written notice to the City. The Dissemination Agent shall be paid compensation by the City for its services provided hereunder in accordance with the schedule of fees agreed upon by the City, as amended from time to time, and all reasonable expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally-recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally-recognized bond counsel, materially impair the interests of the Owners or Beneficial Owners.

In the event of any amendment or waiver of a provision of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to

that which is specifically required by this Disclosure Certificate, the City shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the City or the Dissemination Agent to comply with any provision of this Disclosure Certificate, any Owner or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the City or the Dissemination Agent to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties under this Disclosure Certificate as are specifically set forth in this Disclosure Certificate, and the City, to the extent permitted by law, agrees to indemnify and save the Dissemination Agent and its officers, directors, employees and agents, harmless against any loss, expense and liabilities they may incur arising out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct, respectively. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Owners and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: September __, 2013.

CITY OF STOCKTON

By _____
Chief Financial Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Person: City of Stockton

Name of Issue: Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A

Date of Issuance: October 21, 2010

NOTICE IS HEREBY GIVEN that the City of Stockton has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Certificate, dated September __, 2013 relating to the Bonds. [The City anticipates that the Annual Report will be filed by _____.]

Dated: _____

CITY OF STOCKTON

By _____

Title _____



Nicolas De Lancie
Direct: (415) 984-9675
nde@jmbm.com

Two Embarcadero Center, 5th Floor
San Francisco, California 94111-3813
(415) 398-8080 (415) 398-5584 Fax

www.jmbm.com

Reference: 60389-0155

March 19, 2012

VIA ELECTRONIC DELIVERY

JKnox@orrick.comcom
Original to Follow by Mail

ORRICK, HERRINGTON & SUTCLIFFE LLP
The Orrick Building
405 Howard Street
San Francisco, California 94105-2669
Attention: John H. Knox, Esq.

Re: Union Bank/City of Stockton; \$55,000,000 Stockton Public Financing Authority Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project); Reservation of Rights by UNION BANK, N.A.; Notice of Update of Notice Addresses for Bank

Dear Mr. Knox:

As you know, JEFFER MANGELS BUTLER & MITCHELL LLP (the “**Firm**”) represents UNION BANK, N.A., a national bank (the “**Bank**”), as credit enhancer of the \$55,000,000 Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the “**2010A Bonds**”), issued in October 2010 by the STOCKTON PUBLIC FINANCING AUTHORITY, a joint exercise of powers entity duly organized and existing under and by virtue of the laws of the State of California (the “**Authority**”).

As you no doubt know, (i) the Bonds were issued pursuant to the Indenture dated as of October 1, 2010, made between (A) WELLS FARGO BANK NATIONAL ASSOCIATION, a national banking association, as trustee (in that capacity, the “**Trustee**”); and (B) the Authority, as Issuer; (ii) the credit enhancement of the 2010A Bonds is provided by the Irrevocable Transferable Letter of Credit number S315478M dated October 21, 2010, in the maximum available amount of \$55,958,357 (the “**Letter of Credit**”), issued by the Bank to the Trustee; (iii) the CITY OF STOCKTON, CALIFORNIA, a municipal corporation and chartered city duly organized and existing under and by virtue of the Constitution and laws of the State of California and its charter (the “**City**”), is obligated to the Bank for draws under the Letter of Credit and other amounts

ORRICK, HERRINGTON & SUTCLIFFE LLP
March 19, 2012
Page 2

pursuant to the Reimbursement Agreement dated as of October 1, 2010 (the “**Reimbursement Agreement**”), made between the City, the Authority, and the Bank; and (iv) the obligations of the City under the Reimbursement Agreement and the Authority’s obligations under the 2010A Bonds are secured, *inter alia*, by pledges of certain revenues by the City to, respectively, the Bank and the Trustee.

This letter is being sent to you as counsel to the City with respect to, *inter alia*, the 2010A Bonds. Copies of this letter will also be sent to the City at its official notice addresses (as the Bank last has them) under, respectively, the Reimbursement Agreement and the Indenture, as well as to the Authority, the Trustee, and its recently retained counsel, all as indicated at the end of this letter.

On February 24, 2012, the City issued a S.E.C. Rule 15C2-12 Notice of Material Event to the general public (the “**Material Event Notice**”), which the Bank has received. By the Material Event Notice, the City gave notice that, *inter alia*, that day it was posting an agenda (the “**Agenda**”) for a meeting of the City Council of the City (the “**Council**”) to be held on February 28, 2012, which agenda included as an item for consideration a resolution of the Council, *inter alia*, (i) containing determinations that the City faced an immediate and severe fiscal crisis and that the City is or likely will become unable to meet its financial obligations as and when those obligations are due or become due and owing; (ii) authorizing the commencement by the City of a neutral evaluation (as defined therein) under California Government Code* section 53760, *et seq.* (those sections, the “**Neutral Evaluation Statute**”); and (iii) authorizing and directing the City Manager of the City to suspend general fund payments on certain of the City’s general fund obligations, including with respect to certain bonds (though not including the 2010A Bonds) and the City’s obligations to employees of the City who thereafter separate from service with the City (the “**Resolution**”).

The Bank understands that, at its meeting on February 28, 2012, the Council adopted the Resolution that was on the Agenda.

By the Resolution, the City declared that it was and remained in “a state of fiscal emergency”. Pursuant to the Resolution, on February 29, 2012, the City issued a Notice of the Initiation of Neutral Evaluation Process Pursuant to California Government Code section 53760 *et seq.*, dated that date (the “**Neutral Evaluation Notice**”), requesting a neutral evaluation (as defined therein) pursuant to Section 53760.3(a). The Bank, as credit enhancer of the 2010A Bonds, was an addressee of the Neutral Evaluation Notice. In the notice, the City repeated that the City Council of the City believed that “the City is or likely will become unable to meet its financial obligations are due or become due and owing”.

Pursuant to Section 53760, of course, either (i) participation by the City in a neutral evaluation process under Section 53760.3; or (ii) declaration by the City of a fiscal emergency are alternative California statutory prerequisites for the commencement by the City of a case

* Unless otherwise noted, all statutory references herein are to the California Government Code.

ORRICK, HERRINGTON & SUTCLIFFE LLP
March 19, 2012
Page 3

under Chapter 9 of the Bankruptcy Code (though, in the case of the latter, a further resolution of the Council would also be required as provided in Section 53760.5).

The Bank understands that, after adoption of the Resolution, as contemplated, authorized, and directed thereby, the City, in fact, ceased making one or more payments that are now payable on various of its general fund obligations (that cessation, the **“Payment Blockage”**).

The Reimbursement Agreement provides, in Section 8.01 (Events of Default and Remedies) thereof, that the occurrence of any one of a number of events will be an “Event of Default” thereunder. These events include that—

(g) the City shall ... (ii) not pay, or admit in writing its inability to pay, its debts generally as they become due, ..., (v) institute any proceeding ... seeking ... reorganization, arrangement, adjustment or composition of ... its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors ..., [or] (vi) take any corporate action in furtherance of any matter described in parts (i) through (v) above....

It appears to the Bank that (i) the City (A) has, by, *in toto*, the Material Event Notice, the materials the City publicly issued for Item 15.02 on the Agenda (that is, with respect to the Resolution, these materials being the Memorandum dated February 28, 2012, from Bob Deis, the City’s City Manager, to the City Mayor and the Counsel, on the subject “Fiscal Condition Update for Fiscal Years 2010-11, 2011-12, and 2012-13”, and its attachments), and the Neutral Evaluation Notice, admitted in writing that it is not able to pay its debts generally as they become due; (B) is not now paying its debts generally as they become due; (C) has, by its institution of the neutral evaluation process, instituted a proceeding seeking reorganization, arrangement, adjustment, or composition of its debts under a law relating to bankruptcy, insolvency or reorganization or relief of debtors, that is, the Neutral Evaluation Statute; and (D) has, by the Resolution, taken a corporate [*i.e.*, Council] action in furtherance not only of the neutral evaluation process but also as well of the institution of a bankruptcy reorganization proceeding; and, thus, (ii) one or more Events of Default have occurred under the Reimbursement Agreement.

As a result of the occurrence of these Events of Default, the Bank has various rights and remedies available to it under the Reimbursement Agreement, including those set out in Section 8.02 (Remedies) thereof. Notwithstanding the foregoing, the Bank (i) is not making any present demand on the City; and (ii) does not intend, at this time, (A) formally to “declare” any Event of Default under the Reimbursement Agreement; or (B) to exercise any of its right or remedies thereunder (except, as discussed further below, with respect to certain costs and expenses now being incurred by the Bank in connection with the 2010A Bonds as a result of the City’s financial condition and recent developments). In particular, even though a copy of this letter is being provided to the Trustee and its counsel for its records, this letter is not intended to be or to be construed to be formal “notice” to the Trustee that an Event of Default has occurred

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and is continuing under the Credit Facility (as defined in the Indenture) as contemplated by Section 7.01(e) of the Indenture.

To this end, the Bank has, as you know, agreed to participate, as you have asked it to do, in the neutral evaluation process. You have, of course, reiterated to me the City's present intention, notwithstanding its financial condition, not adversely to affect the rights of the Trustee, the holders of the 2010A Bonds, or the Bank as credit enhancer thereof, or of the respective trustees, holders, or other obligees of the Parity Obligations or the Subordinate Obligations (both as defined in the Reimbursement Agreement), and have indicated that the revenues from the Water System (as defined in the Reimbursement Agreement) are sufficient and are projected by the City to continue to be sufficient to cover the cost and expenses of operating and maintaining the Water System and of paying the Obligations (as defined in the Reimbursement Agreement), the Parity Obligations, and the Subordinate Obligations as the same become payable.

That said, (i) nothing in this letter constitutes (A) a waiver of any Event of Default, whether now existing or occurring in the future, and whether or not mentioned herein; (B) a waiver of any amount due or to become due under the Reimbursement Agreement or any of the other Related Documents (as defined in the Reimbursement Agreement); or (C) a waiver, amendment, or modification of the Reimbursement Agreement or any of the other Related Documents, all of which remain in full force and effect; and (ii) the Bank reserves all of its rights and remedies under and with respect to the Reimbursement Agreement, the other Related Documents, and applicable law, including the right to exercise any of its rights and remedies under the Reimbursement Agreement, any of the other Related Documents, or applicable law on account of an Event of Default without any prior consultation with or notice to, other than is expressly required thereby, the City. Furthermore, any failure by the Bank to identify any Event of Default, whether herein or at any other time, or to exercise any or all rights and remedies available to it under the Related Documents or applicable law in respect of any Event of Default does not constitute a waiver of the Bank's right to do so at a future date.

Please also be advised that no oral communication from or on behalf of the Bank will constitute any agreement, commitment, or evidence of any assurance or intention of the Bank with respect to any aspect of the Related Documents. Any agreement, commitment, assurance, or intention of the Bank with respect to any aspect of the Related Documents will be effective only if in writing and duly authorized and executed on behalf of the Bank and otherwise in accordance with the Related Document in question.

Further, notwithstanding the foregoing, as you know, (i) pursuant to Section 9.18 (Expenses and Taxes) of the Reimbursement Agreement, the City is obligated promptly to pay the Bank, *inter alia*, (A) the reasonable fees and disbursements of counsel to the Bank in connection with advising the Bank as to its rights and responsibilities under the Reimbursement Agreement whether or not an Event of Default has occurred thereunder; and (B) after the occurrence of an Event of Default, all costs and expenses (including attorneys' fees and costs) incurred by the Bank in connection with any refinancing or restructuring of the credit arrangements provided under the Reimbursement Agreement in the nature of a "workout" or of

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any insolvency or bankruptcy proceedings; and (ii) the same are or, when incurred, will be part of the Obligations of the City to the Bank under the Reimbursement Agreement.

As I have advised the City in connection with the Bank's agreement to participate in the neutral evaluation process, the Bank believes that any costs, including reasonable legal fees and costs, incurred by the Bank in connection with the neutral evaluation are or will be an Obligation of the City to the Bank under the Reimbursement Agreement payable on demand. (If the City disagrees with the foregoing, please advise me thereof promptly.) Thus, please let me know to whom in the City the Bank should send redacted copies of its invoices from the Firm for legal services in these matters for reimbursement to the Bank.

Finally, as a housekeeping matter with respect to notices, since a new officer for the Bank has become involved on behalf of the Bank with respect to matters relating to the 2010A Bonds, and since the Firm has been retained by the Bank to represent it in connection therewith, the Bank wishes to provide the City, the Authority, and the Trustee with additional recipients and their addresses for notices to the Bank as contemplated by Section 9.02 (Notices; Effectiveness; Electronic Communication) of the Reimbursement Agreement and Section 11.13 (Notices) of the Indenture as set out below. To the extent of adding notice recipients for the Bank under the Reimbursement Agreement and the Indenture, this letter is notice to the City, the Authority, and the Trustee and will also be delivered in a form that complies with the notice requirements, respectively, thereof.

The additional notice recipients for the Bank and their respective related information are as follows (telephone numbers and e-mail addresses are provided for convenience only and do not constitute consent to the provision of notice by either of those means unless the agreement under which that notice is provided expressly provides for notice by that means):

UNION BANK, N.A.
Special Assets Department
445 South Figueroa Street, Suite 403
Los Angeles, California 90071-1602
Attention: Bette J. McCole
Vice President
Telephone: (213) 236-5242
Facsimile: (213) 236-5087
e-mail: BetteJean.McCole@unionbank.com

JEFFER MANGELS BUTLER & MITCHELL LLP
Two Embarcadero Center, Fifth Floor
San Francisco, California 94111-3813
Attention: Robert B. Kaplan, Esq.
Telephone: (415) 398-8080
Facsimile: (415) 398-5584
e-mail: rbk@jmbm.com

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JEFFER MANGELS BUTLER & MITCHELL LLP
Two Embarcadero Center, Fifth Floor
San Francisco, California 94111-3813
Attention: Nicolas De Lancie, Esq.
Telephone: (415) 398-8080
Facsimile: (415) 398-5584
e-mail: nde@jmbm.com

As I advised the City, the Bank and the Firm look forward to working with you, your colleague Marc A. Levinson, Esq., and the City's staff in the neutral evaluation process.

Very truly yours,

NICOLAS DE LANCIE of
JEFFER MANGELS BUTLER & MITCHELL LLP

NDeL:msw
cc: (see following page for distribution list)

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March 19, 2012

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cc: (by electronic delivery)

John M. Luebberke, Esq., CITY OF STOCKTON (JLuebberke@stocktongov.com)
Marc A. Levinson, Esq., ORRICK, HERRINGTON & SUTCLIFFE LLP (MALevinson@orrick.com)
Bakul D. Mehta, WELLS FARGO BANK NATIONAL ASSOCIATION (Bakul.D.Mehta@wellsfargo.com)
William W. Kannel, Esq., MINTZ, LEVIN, COHN, FERRIS, GLOVSKY AND POPEO, P.C. (WKannel@mintz.com)
Bette J. McCole, UNION BANK, N.A. (BetteJean.McCole@unionbank.com)
Robert B. Kaplan, Esq., JEFFER MANGELS BUTLER & MITCHELL LLP (rbk@jmbm.com)

cc: (by mail)

CITY OF STOCKTON
Department of Financial Management
425 N. Eldorado Street
Stockton, California 95202
Attention: Director of Administrative Service/CFO

CITY OF STOCKTON
425 N. Eldorado Street
Stockton, California 95202
Attention: City Manager

STOCKTON PUBLIC FINANCING AUTHORITY
425 N. Eldorado Street
Stockton, California 95202
Attention: Treasurer

STOCKTON PUBLIC FINANCING AUTHORITY
425 N. Eldorado Street
Stockton, California 95202
Attention: Executive Director

WELLS FARGO BANK NATIONAL ASSOCIATION
MAC #A0119-181
333 Market Street, 18th Floor
San Francisco, California 94105
Attention: Corporate Trust Services

SF 1296545v2

	Estimated	Budgeted	Projected					
	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
[1] Charges for Services [1]	\$35,274,121	\$35,498,596	\$36,072,208	\$36,171,635	\$36,261,068	\$36,394,081	\$36,557,451	\$36,676,586
[2] Revenues from Rate Adjustment [2]	0	593,007	1,508,727	2,441,961	3,402,447	4,396,696	5,427,148	6,483,918
[3] Other Revenues	845,512	862,422	871,046	879,757	888,554	897,440	906,414	915,478
[4] Interest Revenues	484,247	627,610	799,312	669,394	575,757	522,881	511,756	540,641
[5] Connection Charges	820,480	472,066	721,738	1,062,417	1,322,767	1,603,210	1,905,940	2,233,409
[6] Surface Water Supply Fees	1,620,410	1,062,225	1,624,078	2,388,507	2,953,400	3,550,557	4,182,657	4,853,088
[7] Rate Stabilization Deposit	\$2,500,000	\$3,400,000	\$3,150,000	\$1,500,000	\$2,800,000	\$2,500,000	\$2,100,000	\$1,700,000
[8] Total Revenues	\$41,544,770	\$42,515,926	\$44,747,109	\$45,113,671	\$48,203,995	\$49,864,864	\$51,591,367	\$53,403,120
[9] General Operations	\$5,959,695	\$6,408,369	\$6,568,578	\$6,732,793	\$6,901,112	\$7,073,640	\$7,250,481	\$7,431,743
[10] Administrative	2,237,488	2,652,237	2,718,543	2,786,506	2,856,169	2,927,573	3,000,763	3,075,782
[11] Customer Service	906,089	946,623	970,289	994,546	1,019,409	1,044,895	1,071,017	1,097,792
[12] Hydrant Division	334,814	332,185	340,490	349,002	357,727	366,670	375,837	385,233
[13] Other Support Staff	401,777	395,721	405,614	415,754	426,148	436,802	447,722	458,915
[14] Water Conservation	397,179	404,663	414,780	425,149	435,778	446,672	457,839	469,285
[15] 2010A Remarketing Fee	54,886	0	0	0	0	0	0	0
[16] Purchased Water-SEWD	5,615,664	4,935,599	5,182,379	5,441,498	5,713,573	5,999,251	6,299,214	6,614,175
[17] Groundwater Tax	675,707	591,000	606,969	625,178	643,933	663,251	683,149	703,643
[18] SEWD-Scenario Adjustments	0	930,069	770,069	361,063	1,872,869	1,872,869	1,872,869	1,872,869
[19] Purchased Water-WID	1,366,046	1,393,368	1,485,109	1,529,662	1,575,552	1,622,819	1,671,503	1,721,648
[20] O&M DWSP	4,524,941	4,530,898	4,644,170	4,760,275	4,879,282	5,001,264	5,126,295	5,254,453
[21] Total O&M	\$22,474,286	\$23,520,732	\$24,106,989	\$24,421,425	\$26,681,553	\$27,455,706	\$28,256,689	\$29,085,538
[22] Net Revenues Available for DS	\$19,070,484	\$18,995,194	\$20,640,120	\$20,692,246	\$21,522,442	\$22,409,157	\$23,334,678	\$24,317,582
[23] Drought Loan	\$95,342	\$95,342	\$95,342	\$95,342	\$91,155	\$0	\$0	\$0
[24] 2002 A	1,111,588	1,112,038	1,115,188	1,111,055	1,114,341	1,110,063	1,113,220	1,112,706
[25] 2005 A	1,150,313	1,150,313	1,150,313	1,150,313	1,150,313	1,297,313	1,296,213	1,294,713
[26] 2010 A	1,560,920	2,107,678	3,774,038	3,775,538	3,742,413	3,725,163	3,727,913	3,725,288
[27] Total Senior Debt Service	\$3,918,162	\$4,465,370	\$6,134,879	\$6,132,247	\$6,098,222	\$6,132,538	\$6,137,345	\$6,132,706
[28] Less: Interest Revenues-Senior Lien DSRF(s)	112,827	77,287	101,331	101,331	101,331	101,331	101,331	101,331
[29] Net Senior Debt Service	3,805,335	4,388,083	6,033,549	6,030,916	5,996,891	6,031,207	6,036,014	6,031,376
[30] Net Revenue Available for Subordinate DS	\$15,265,149	\$14,607,111	\$14,606,572	\$14,661,330	\$15,525,551	\$16,377,950	\$17,298,663	\$18,286,207
[31] <i>Senior Debt Service Coverage</i>	<i>5.01</i>	<i>4.33</i>	<i>3.42</i>	<i>3.43</i>	<i>3.59</i>	<i>3.72</i>	<i>3.87</i>	<i>4.03</i>
[32] 2009 A	\$3,808,250	\$3,809,350	\$3,805,450	\$3,808,750	\$5,796,375	\$0	\$0	\$0
[33] 2009 B	7,753,583	8,045,833	7,753,583	7,753,583	7,753,583	11,512,678	11,508,912	11,511,846
[34] Total Subordinate DS	\$11,561,833	\$11,855,183	\$11,559,033	\$11,562,333	\$13,549,958	\$11,512,678	\$11,508,912	\$11,511,846
[35] Interest Revenues-Subordinate DSRF(s)	392,386	392,386	392,386	392,386	2,342,431	343,017	343,017	343,017
[36] Net: Subordinate Debt Service	\$11,169,447	\$11,462,797	\$11,166,647	\$11,169,947	\$11,207,527	\$11,169,661	\$11,165,894	\$11,168,828
[37] Net Revenues Available for Capital and Other	\$4,095,702	\$3,144,313	\$3,439,925	\$3,491,383	\$4,318,025	\$5,208,289	\$6,132,769	\$7,117,378
[38] <i>Subordinate Debt Service Coverage</i>	<i>1.37</i>	<i>1.27</i>	<i>1.31</i>	<i>1.31</i>	<i>1.39</i>	<i>1.47</i>	<i>1.55</i>	<i>1.64</i>
[39] Rate Stabilization Fund (426 Fund)								
[40] Beginning Balance	\$8,100,000	\$5,600,000	\$4,700,000	\$4,950,000	\$6,600,000	\$5,300,000	\$5,600,000	\$6,000,000
[41] Plus: To Reserves (Rev Req)	0	0	0	0	0	0	0	0
[42] Plus: From Operating Cash (Replenish RSF)	0	2,500,000	3,400,000	3,150,000	1,500,000	2,800,000	2,500,000	2,100,000
[43] Plus: From DWSP SWSF Fund	0	0	250,000	500,000	750,000	1,500,000	2,000,000	2,000,000
[44] Less: Uses of Funds (Deposit to Revenues)	2,500,000	3,400,000	3,150,000	1,500,000	2,800,000	2,500,000	2,100,000	1,700,000
[45] Less: To Operating Cash	0	0	250,000	500,000	750,000	1,500,000	2,000,000	2,000,000
[46] Less: To DWSP SWSF Fund	0	0	0	0	0	0	0	0
[47] Ending Balance ^[3]	\$5,600,000	\$4,700,000	\$4,950,000	\$6,600,000	\$5,300,000	\$5,600,000	\$6,000,000	\$6,400,000
[48] Operating Fund Ending Balance	\$25,416,568	\$18,222,167	\$12,515,276	\$6,460,984	\$4,722,841	\$2,735,893	\$2,081,180	\$2,661,565
[49] Operating Reserve Ending Balance	\$5,550,000	\$6,150,000	\$6,750,000	\$7,350,000	\$7,950,000	\$8,550,000	\$9,150,000	\$9,750,000
[50] Total Ending Cash Balance	\$30,966,568	\$24,372,167	\$19,265,276	\$13,810,984	\$12,672,841	\$11,285,893	\$11,231,180	\$12,411,565
[51] <i>Ending Cash as % of O&M</i>	<i>138%</i>	<i>104%</i>	<i>80%</i>	<i>57%</i>	<i>47%</i>	<i>41%</i>	<i>40%</i>	<i>43%</i>
[52] <i>Prior Gross Debt Service (4.56%)</i>	<i>n/a</i>	<i>1,463,000</i>	<i>2,508,000</i>	<i>2,508,000</i>	<i>2,508,000</i>	<i>2,683,896</i>	<i>2,778,294</i>	<i>2,775,070</i>
[53] <i>Proposed Gross Debt Service (6.26%)</i>	<i>n/a</i>	<i>2,107,678</i>	<i>3,774,038</i>	<i>3,775,538</i>	<i>3,742,413</i>	<i>3,725,163</i>	<i>3,727,913</i>	<i>3,725,288</i>
[54] <i>Incremental Gross Debt Service Increase</i>	<i>n/a</i>	<i>644,678</i>	<i>1,266,038</i>	<i>1,267,538</i>	<i>1,234,413</i>	<i>1,041,267</i>	<i>949,619</i>	<i>950,218</i>
[55] <i>Incremental Reserve Fund Credit (1.00% Earnings)</i>	<i>n/a</i>	<i>(11,291)</i>	<i>(19,356)</i>	<i>(19,356)</i>	<i>(19,356)</i>	<i>(19,356)</i>	<i>(19,356)</i>	<i>(19,356)</i>
[56] <i>Net Incremental Debt Service Increase</i>	<i>n/a</i>	<i>633,387</i>	<i>1,246,681</i>	<i>1,248,181</i>	<i>1,215,056</i>	<i>1,021,910</i>	<i>930,262</i>	<i>930,861</i>

Notes

- [1] Assumes adopted rate adjustments
- [2] Assumes inflationary adjustments (3.0%) after approved rate increases in FY 12/13
- [3] Does not include interest earnings; interest included in misc revenue

	Estimated	Budgeted	Projected					
	FY 12/13	FY 13/14	FY 14/15	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20
[1] Charges for Services [1]	\$35,274,121	\$35,498,596	\$36,072,208	\$36,171,635	\$36,261,068	\$36,394,081	\$36,557,451	\$36,676,586
[2] Revenues from Rate Adjustment [2]	0	593,007	1,508,727	2,441,961	3,402,447	4,396,696	5,427,148	6,483,918
[3] Other Revenues	845,512	862,422	871,046	879,757	888,554	897,440	906,414	915,478
[4] Interest Revenues	484,247	627,610	790,530	652,390	550,343	488,785	468,699	488,334
[5] Connection Charges	820,480	472,066	721,738	1,062,417	1,322,767	1,603,210	1,905,940	2,233,409
[6] Surface Water Supply Fees	1,620,410	1,062,225	1,624,078	2,388,507	2,953,400	3,550,557	4,182,657	4,853,088
[7] Rate Stabilization Deposit	\$2,500,000	\$3,400,000	\$2,350,000	\$1,800,000	\$3,050,000	\$2,750,000	\$2,375,000	\$2,000,000
[8] Total Revenues	\$41,544,770	\$42,515,926	\$43,938,328	\$45,396,667	\$48,428,581	\$50,080,768	\$51,823,309	\$53,650,813
[9] General Operations	\$5,959,695	\$6,408,369	\$6,568,578	\$6,732,793	\$6,901,112	\$7,073,640	\$7,250,481	\$7,431,743
[10] Administrative	2,237,488	2,652,237	2,718,543	2,786,506	2,856,169	2,927,573	3,000,763	3,075,782
[11] Customer Service	906,089	946,623	970,289	994,546	1,019,409	1,044,895	1,071,017	1,097,792
[12] Hydrant Division	334,814	332,185	340,490	349,002	357,727	366,670	375,837	385,233
[13] Other Support Staff	401,777	395,721	405,614	415,754	426,148	436,802	447,722	458,915
[14] Water Conservation	397,179	404,663	414,780	425,149	435,778	446,672	457,839	469,285
[15] 2010A Remarketing Fee	54,886	0	0	0	0	0	0	0
[16] Purchased Water-SEWD	5,615,664	4,935,599	5,182,379	5,441,498	5,713,573	5,999,251	6,299,214	6,614,175
[17] Groundwater Tax	675,707	591,000	606,969	625,178	643,933	663,251	683,149	703,643
[18] SEWD-Scenario Adjustments	0	930,069	770,069	361,063	1,872,869	1,872,869	1,872,869	1,872,869
[19] Purchased Water-WID	1,366,046	1,393,368	1,485,109	1,529,662	1,575,552	1,622,819	1,671,503	1,721,648
[20] O&M DWSP	4,524,941	4,530,898	4,644,170	4,760,275	4,879,282	5,001,264	5,126,295	5,254,453
[21] Total O&M	\$22,474,286	\$23,520,732	\$24,106,989	\$24,421,425	\$26,681,553	\$27,455,706	\$28,256,689	\$29,085,538
[22] Net Revenues Available for DS	\$19,070,484	\$18,995,194	\$19,831,339	\$20,975,242	\$21,747,028	\$22,625,061	\$23,566,620	\$24,565,275
[23] Drought Loan	\$95,342	\$95,342	\$95,342	\$95,342	\$91,155	\$0	\$0	\$0
[24] 2002 A	1,111,588	1,112,038	1,115,188	1,111,055	1,114,341	1,110,063	1,113,220	1,112,706
[25] 2005 A	1,150,313	1,150,313	1,150,313	1,150,313	1,150,313	1,297,313	1,296,213	1,294,713
[26] 2010 A	1,560,920	2,264,238	4,037,550	4,034,425	4,001,800	3,985,050	3,988,300	3,986,175
[27] Total Senior Debt Service	\$3,918,162	\$4,621,929	\$6,398,392	\$6,391,134	\$6,357,609	\$6,392,425	\$6,397,733	\$6,393,594
[28] Less: Interest Revenues-Senior Lien DSRF(s)	112,827	77,287	101,331	101,331	101,331	101,331	101,331	101,331
[29] Net Senior Debt Service	3,805,335	4,544,642	6,297,061	6,289,803	6,256,278	6,291,094	6,296,402	6,292,263
[30] Net Revenue Available for Subordinate DS	\$15,265,149	\$14,450,552	\$13,534,278	\$14,685,439	\$15,490,750	\$16,333,967	\$17,270,218	\$18,273,012
[31] <i>Senior Debt Service Coverage</i>	<i>5.01</i>	<i>4.18</i>	<i>3.15</i>	<i>3.33</i>	<i>3.48</i>	<i>3.60</i>	<i>3.74</i>	<i>3.90</i>
[32] 2009 A	\$3,808,250	\$3,809,350	\$3,805,450	\$3,808,750	\$5,796,375	\$0	\$0	\$0
[33] 2009 B	7,753,583	8,045,833	7,753,583	7,753,583	7,753,583	11,512,678	11,508,912	11,511,846
[34] Total Subordinate DS	\$11,561,833	\$11,855,183	\$11,559,033	\$11,562,333	\$13,549,958	\$11,512,678	\$11,508,912	\$11,511,846
[35] Interest Revenues-Subordinate DSRF(s)	392,386	392,386	392,386	392,386	2,342,431	343,017	343,017	343,017
[36] Net: Subordinate Debt Service	\$11,169,447	\$11,462,797	\$11,166,647	\$11,169,947	\$11,207,527	\$11,169,661	\$11,165,894	\$11,168,828
[37] Net Revenues Available for Capital and Other	\$4,095,702	\$2,987,754	\$2,367,631	\$3,515,492	\$4,283,223	\$5,164,306	\$6,104,324	\$7,104,184
[38] <i>Subordinate Debt Service Coverage</i>	<i>1.37</i>	<i>1.26</i>	<i>1.21</i>	<i>1.31</i>	<i>1.38</i>	<i>1.46</i>	<i>1.55</i>	<i>1.64</i>
[39] Rate Stabilization Fund (426 Fund)								
[40] Beginning Balance	\$8,100,000	\$5,600,000	\$4,700,000	\$5,750,000	\$6,300,000	\$5,050,000	\$5,350,000	\$5,725,000
[41] Plus: To Reserves (Rev Req)	0	0	0	0	0	0	0	0
[42] Plus: From Operating Cash (Replenish RSF)	0	2,500,000	3,400,000	2,350,000	1,800,000	3,050,000	2,750,000	2,375,000
[43] Plus: From DWSP SWSF Fund	0	0	250,000	500,000	750,000	1,500,000	2,000,000	2,000,000
[44] Less: Uses of Funds (Deposit to Revenues)	2,500,000	3,400,000	2,350,000	1,800,000	3,050,000	2,750,000	2,375,000	2,000,000
[45] Less: To Operating Cash	0	0	250,000	500,000	750,000	1,500,000	2,000,000	2,000,000
[46] Less: To DWSP SWSF Fund	0	0	0	0	0	0	0	0
[47] Ending Balance ^[3]	\$5,600,000	\$4,700,000	\$5,750,000	\$6,300,000	\$5,050,000	\$5,350,000	\$5,725,000	\$6,100,000
[48] Operating Fund Ending Balance	\$25,416,568	\$18,065,607	\$11,286,423	\$6,056,240	\$3,983,296	\$1,702,365	\$769,207	\$1,061,397
[49] Operating Reserve Ending Balance	\$5,550,000	\$6,150,000	\$6,750,000	\$7,350,000	\$7,950,000	\$8,550,000	\$9,150,000	\$9,750,000
[50] Total Ending Cash Balance	\$30,966,568	\$24,215,607	\$18,036,423	\$13,406,240	\$11,933,296	\$10,252,365	\$9,919,207	\$10,811,397
[51] <i>Ending Cash as % of O&M</i>	<i>138%</i>	<i>103%</i>	<i>75%</i>	<i>55%</i>	<i>45%</i>	<i>37%</i>	<i>35%</i>	<i>37%</i>
[52] <i>Prior Gross Debt Service (4.56%)</i>	<i>n/a</i>	<i>1,463,000</i>	<i>2,508,000</i>	<i>2,508,000</i>	<i>2,508,000</i>	<i>2,683,896</i>	<i>2,778,294</i>	<i>2,775,070</i>
[53] <i>Proposed Gross Debt Service (6.26%)</i>	<i>n/a</i>	<i>2,264,238</i>	<i>4,037,550</i>	<i>4,034,425</i>	<i>4,001,800</i>	<i>3,985,050</i>	<i>3,988,300</i>	<i>3,986,175</i>
[54] <i>Incremental Gross Debt Service Increase</i>	<i>n/a</i>	<i>801,238</i>	<i>1,529,550</i>	<i>1,526,425</i>	<i>1,493,800</i>	<i>1,301,154</i>	<i>1,210,006</i>	<i>1,211,105</i>
[55] <i>Incremental Reserve Fund Credit (1.00% Earnings)</i>	<i>n/a</i>	<i>(11,291)</i>	<i>(19,357)</i>	<i>(19,357)</i>	<i>(19,357)</i>	<i>(19,357)</i>	<i>(19,357)</i>	<i>(19,357)</i>
[56] <i>Net Incremental Debt Service Increase</i>	<i>n/a</i>	<i>789,946</i>	<i>1,510,193</i>	<i>1,507,068</i>	<i>1,474,443</i>	<i>1,281,797</i>	<i>1,190,649</i>	<i>1,191,748</i>

Notes

- [1] Assumes adopted rate adjustments
- [2] Assumes inflationary adjustments (3.0%) after approved rate increases in FY 12/13
- [3] Does not include interest earnings; interest included in misc revenue

STOCKTON PUBLIC FINANCING AUTHORITY
 Comparision of Financing Alternatives

SCENARIO 1: BONDS REMAIN VARIABLE ⁽¹⁾
 Assumes "All-In" 4.56% Cost

FY (6/30)	Principal	Interest	Total D/S	DSRF @ 1.00%	Net D/S
2014	-	1,463,000	1,463,000	22,370	1,440,630
2015	-	2,508,000	2,508,000	38,349	2,469,651
2016	-	2,508,000	2,508,000	38,349	2,469,651
2017	-	2,508,000	2,508,000	38,349	2,469,651
2018	180,000	2,503,896	2,683,896	38,349	2,645,547
2019	285,000	2,493,294	2,778,294	38,349	2,739,945
2020	295,000	2,480,070	2,775,070	38,349	2,736,721
2021	305,000	2,466,390	2,771,390	38,349	2,733,041
2022	310,000	2,452,368	2,762,368	38,349	2,724,019
2023	300,000	2,438,460	2,738,460	38,349	2,700,111
2024	330,000	2,424,096	2,754,096	38,349	2,715,747
2025	340,000	2,408,820	2,748,820	38,349	2,710,471
2026	350,000	2,393,088	2,743,088	38,349	2,704,739
2027	360,000	2,376,900	2,736,900	38,349	2,698,551
2028	355,000	2,360,598	2,715,598	38,349	2,677,249
2029	385,000	2,343,726	2,728,726	38,349	2,690,377
2030	400,000	2,325,828	2,725,828	38,349	2,687,479
2031	410,000	2,307,360	2,717,360	38,349	2,679,011
2032	425,000	2,288,322	2,713,322	38,349	2,674,973
2033	440,000	2,268,600	2,708,600	38,349	2,670,251
2034	430,000	2,248,764	2,678,764	38,349	2,640,415
2035	465,000	2,228,358	2,693,358	38,349	2,655,009
2036	2,710,000	2,155,968	4,865,968	38,349	4,827,619
2037	565,000	2,081,298	2,646,298	38,349	2,607,949
2038	580,000	2,055,192	2,635,192	38,349	2,596,843
2039	14,450,000	1,712,508	16,162,508	38,349	16,124,159
2040	14,925,000	1,042,758	15,967,758	38,349	15,929,409
2041	15,405,000	351,234	15,756,234	3,854,063	11,902,171
Total	55,000,000	61,194,896	116,194,896	4,873,504	111,321,392

SCENARIO 2: BONDS ENTER FIXED RATE MODE
 At "Baa3/BB+/BB+" LEVELS

FY (6/30)	Principal	Interest	Total D/S	DSRF @ 1.00%	Net D/S	Net D/S
2014	-	2,107,678	2,107,678	33,661	2,074,017	633,387
2015	165,000	3,609,038	3,774,038	57,705	3,716,332	1,246,681
2016	175,000	3,600,538	3,775,538	57,705	3,717,832	1,248,181
2017	150,000	3,592,413	3,742,413	57,705	3,684,707	1,215,056
2018	140,000	3,585,163	3,725,163	57,705	3,667,457	1,021,910
2019	150,000	3,577,913	3,727,913	57,705	3,670,207	930,262
2020	155,000	3,570,288	3,725,288	57,705	3,667,582	930,861
2021	170,000	3,562,163	3,732,163	57,705	3,674,457	941,416
2022	170,000	3,553,663	3,723,663	57,705	3,665,957	941,938
2023	185,000	3,544,788	3,729,788	57,705	3,672,082	971,971
2024	190,000	3,535,413	3,725,413	57,705	3,667,707	951,960
2025	200,000	3,524,913	3,724,913	57,705	3,667,207	956,736
2026	210,000	3,513,125	3,723,125	57,705	3,665,420	960,681
2027	225,000	3,500,619	3,725,619	57,705	3,667,914	969,393
2028	240,000	3,487,250	3,727,250	57,705	3,669,545	992,296
2029	250,000	3,473,163	3,723,163	57,705	3,665,457	975,080
2030	270,000	3,457,200	3,727,200	57,705	3,669,495	982,016
2031	290,000	3,439,000	3,729,000	57,705	3,671,295	992,284
2032	305,000	3,419,663	3,724,663	57,705	3,666,957	991,984
2033	330,000	3,399,025	3,729,025	57,705	3,671,320	1,001,069
2034	350,000	3,376,925	3,726,925	57,705	3,669,220	1,028,805
2035	375,000	3,352,894	3,727,894	57,705	3,670,189	1,015,180
2036	2,660,000	3,250,463	5,910,463	57,705	5,852,757	1,025,138
2037	590,000	3,140,775	3,730,775	57,705	3,673,070	1,065,121
2038	630,000	3,099,600	3,729,600	57,705	3,671,895	1,075,052
2039	14,200,000	2,599,088	16,799,088	57,705	16,741,382	617,223
2040	15,190,000	1,607,175	16,797,175	57,705	16,739,470	810,061
2041	16,215,000	547,256	16,762,256	5,799,360	10,962,896	(939,275)
Total	54,180,000	90,027,184	144,207,184	7,333,353	136,873,831	25,552,439

DIFFERENCE

Notes

Average= 912,587

**Stockton Public Financing Authority
(Delta Water Supply Project)
Water Revenue Bonds, Series 2010A (Conversion)
Sources and Uses of Funds**

Sources of Funds

Par Amount of Bonds ⁽¹⁾	54,180,000.00	
Plus: Accrued Interest	-	
Plus: Bond Premium	3,525,076.05	
Net Proceeds		57,705,076.05
Plus: Prior Issue Reserve Fund ⁽²⁾		3,834,888.28
Total Sources		61,539,964.33

Uses of Funds

Cost To Payoff Prior Bonds ⁽³⁾		55,000,000.00
Reserve Fund ⁽⁴⁾		5,770,507.61
Fixed Costs ⁽⁵⁾	227,656.72	
Underwriter's Discount ⁽⁶⁾	541,800.00	
Total Costs Of Issuance		769,456.72
Total Uses		61,539,964.33

Notes

- (1) Capped at a "not-to-exceed" \$55,000,000
(2) Reserve fund funded as part of the prior 2010A Bonds and no longer required since 100% of the bonds will be retired
(3) Amount of outstanding principal of the 2010A Bonds (100% to be retired)
(4) Money set-aside as a reserve fund for new investors - sized at 10.00% of the net proceeds of the bonds
(5) Fixed Costs including fees for bond and disclosure counsel, rating agency financial advisor, trustee, printer and regulatory agencies
(6) Assumed at 1.00% of the par amount of bonds (capped at a "not-to-exceed" 1%, final percentage to be determined upon sale)

**Stockton Public Financing Authority
(Delta Water Supply Project)
Water Revenue Bonds, Series 2010A (Conversion)
Production Calculation**

Serials	780,000	51,253.95
Term One	870,000	34,913.10
Term Two	1,125,000	36,427.50
Term Three	1,545,000	102,248.10
Term Four	49,860,000	3,300,233.40
Totals	54,180,000	3,525,076.05

Date	Coupon	Yield	Price	Principal	(OID) / OIP	Bond Type	Yield To Call (*)
09/01/13							
10/01/14	5.000	2.000	103.197	165,000	5,275.05	STA	
10/01/15	5.000	2.250	105.564	175,000	9,737.00	STA	
10/01/16	5.000	2.500	107.372	150,000	11,058.00	STA	
10/01/17	5.000	2.760	108.591	140,000	12,027.40	STA	
10/01/18	5.000	3.120	108.771	150,000	13,156.50	STA	
10/01/19	5.000	4.500	104.013	155,000	6,220.15	STA	
10/01/20	5.000	4.500	104.013	170,000	6,822.10	STA	
10/01/21	5.000	4.500	104.013	170,000	6,822.10	STA	
10/01/22	5.000	4.500	104.013	185,000	7,424.05	STA	
10/01/23	5.000	4.500	104.013	190,000	7,624.70	STA	
10/01/24	5.750	5.330	103.238	200,000	6,476.00	STA	5.432
10/01/25	5.750	5.330	103.238	210,000	6,799.80	STA	5.432
10/01/26	5.750	5.330	103.238	225,000	7,285.50	STA	5.432
10/01/27	5.750	5.330	103.238	240,000	7,771.20	STA	5.432
10/01/28	5.750	5.330	103.238	250,000	8,095.00	STA	5.432
10/01/29	6.500	5.630	106.618	270,000	17,868.60	STA	5.931
10/01/30	6.500	5.630	106.618	290,000	19,192.20	STA	5.931
10/01/31	6.500	5.630	106.618	305,000	20,184.90	STA	5.931
10/01/32	6.500	5.630	106.618	330,000	21,839.40	STA	5.931
10/01/33	6.500	5.630	106.618	350,000	23,163.00	STA	5.931
10/01/34	6.750	5.870	106.619	375,000	24,821.25	STA	6.240
10/01/35	6.750	5.870	106.619	2,660,000	176,065.40	STA	6.240
10/01/36	6.750	5.870	106.619	590,000	39,052.10	STA	6.240
10/01/37	6.750	5.870	106.619	630,000	41,699.70	STA	6.240
10/01/38	6.750	5.870	106.619	14,200,000	939,898.00	STA	6.240
10/01/39	6.750	5.870	106.619	15,190,000	1,005,426.10	STA	6.240
10/01/40	6.750	5.870	106.619	16,215,000	1,073,270.85	STA	6.240

* Assumes October 1, 2023 Call at 100%

Stockton Public Financing Authority
(Delta Water Supply Project)
Water Revenue Bonds, Series 2010A (Conversion)

Net Debt Service Schedule

FY Ending	Principal	Rate	Interest	Fiscal Year Debt Service	Less: RF Earnings and Corpus	Net Fiscal Year Debt Service
09/01/2013						
6/30/2014			2,107,678.13	2,107,678.13	(33,661.29)	2,074,016.83
6/30/2015	165,000	5.000	3,609,037.50	3,774,037.50	(57,705.08)	3,716,332.42
6/30/2016	175,000	5.000	3,600,537.50	3,775,537.50	(57,705.08)	3,717,832.42
6/30/2017	150,000	5.000	3,592,412.50	3,742,412.50	(57,705.08)	3,684,707.42
6/30/2018	140,000	5.000	3,585,162.50	3,725,162.50	(57,705.08)	3,667,457.42
6/30/2019	150,000	5.000	3,577,912.50	3,727,912.50	(57,705.08)	3,670,207.42
6/30/2020	155,000	5.000	3,570,287.50	3,725,287.50	(57,705.08)	3,667,582.42
6/30/2021	170,000	5.000	3,562,162.50	3,732,162.50	(57,705.08)	3,674,457.42
6/30/2022	170,000	5.000	3,553,662.50	3,723,662.50	(57,705.08)	3,665,957.42
6/30/2023	185,000	5.000	3,544,787.50	3,729,787.50	(57,705.08)	3,672,082.42
6/30/2024	190,000	5.000	3,535,412.50	3,725,412.50	(57,705.08)	3,667,707.42
6/30/2025	200,000	5.750	3,524,912.50	3,724,912.50	(57,705.08)	3,667,207.42
6/30/2026	210,000	5.750	3,513,125.00	3,723,125.00	(57,705.08)	3,665,419.92
6/30/2027	225,000	5.750	3,500,618.75	3,725,618.75	(57,705.08)	3,667,913.67
6/30/2028	240,000	5.750	3,487,250.00	3,727,250.00	(57,705.08)	3,669,544.92
6/30/2029	250,000	5.750	3,473,162.50	3,723,162.50	(57,705.08)	3,665,457.42
6/30/2030	270,000	6.500	3,457,200.00	3,727,200.00	(57,705.08)	3,669,494.92
6/30/2031	290,000	6.500	3,439,000.00	3,729,000.00	(57,705.08)	3,671,294.92
6/30/2032	305,000	6.500	3,419,662.50	3,724,662.50	(57,705.08)	3,666,957.42
6/30/2033	330,000	6.500	3,399,025.00	3,729,025.00	(57,705.08)	3,671,319.92
6/30/2034	350,000	6.500	3,376,925.00	3,726,925.00	(57,705.08)	3,669,219.92
6/30/2035	375,000	6.750	3,352,893.75	3,727,893.75	(57,705.08)	3,670,188.67
6/30/2036	2,660,000	6.750	3,250,462.50	5,910,462.50	(57,705.08)	5,852,757.42
6/30/2037	590,000	6.750	3,140,775.00	3,730,775.00	(57,705.08)	3,673,069.92
6/30/2038	630,000	6.750	3,099,600.00	3,729,600.00	(57,705.08)	3,671,894.92
6/30/2039	14,200,000	6.750	2,599,087.50	16,799,087.50	(57,705.08)	16,741,382.42
6/30/2040	15,190,000	6.750	1,607,175.00	16,797,175.00	(57,705.08)	16,739,469.92
6/30/2041	16,215,000	6.750	547,256.25	16,762,256.25	(5,799,360.14)	10,962,896.11
Subtotal	54,180,000		90,027,184.38	144,207,184.38	(7,333,353.41)	136,873,830.96
Accrued			-	-	-	-
Total	54,180,000		90,027,184.38	144,207,184.38	(7,333,353.41)	136,873,830.96

STOCKTON CITY COUNCIL

RESOLUTION AUTHORIZING THE CONVERSION OF THE INTEREST RATE PERIOD AND AMENDMENT OF CERTAIN PROVISIONS OF THE STOCKTON PUBLIC FINANCING AUTHORITY VARIABLE RATE DEMAND WATER REVENUE BONDS, SERIES 2010A (DELTA WATER SUPPLY PROJECT); APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A FIRST SUPPLEMENTAL INSTALLMENT PURCHASE CONTRACT, A BOND PURCHASE CONTRACT, A REMARKETING MEMORANDUM AND A CONTINUING DISCLOSURE CERTIFICATE RELATING THERETO; AND APPROVING CERTAIN ACTIONS IN CONNECTION THEREWITH

The City of Stockton (the "City") and the former Redevelopment Agency of the City of Stockton entered into a Joint Exercise of Powers Agreement establishing the Stockton Public Financing Authority (the "Authority"), a California joint exercise of powers entity duly organized to provide financial assistance to the City; and

The Authority previously issued its Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the "Bonds") pursuant to an indenture, dated as of October 1, 2010 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"), to provide funds to the City through an installment purchase financing for the acquisition, construction, installation and improvement of its Delta Water Supply Project; and

In connection with the original issuance of the Bonds, the Authority and the City entered into an installment purchase contract, dated as of October 1, 2010 (the "Installment Purchase Contract"); and

The City now desires to exercise its election under the Indenture to convert the interest rate period of the Bonds (the "Conversion") and, in connection with such Conversion, the Bonds will be subject to mandatory tender and remarketing under the provisions of the Indenture; and

Concurrently with such Conversion, the City also desires to modify certain terms of the Bonds, the Indenture, and the Installment Purchase Contract and the City has requested that the Authority modify such terms; and

To provide for the modification of the terms of the Bonds and the Indenture, it is proposed that the Authority and the Trustee enter into a First Supplemental Indenture (the "First Supplemental Indenture"); and

To provide for the modification of the terms of the Installment Purchase Contract, it is proposed that the City and the Authority enter into a First Supplemental Installment Purchase Contract (the "First Supplemental Installment Purchase Contract"); and

Upon the mandatory tender of the Bonds on the date of the Conversion, the Bonds will be remarketed by Citigroup Global Markets, Inc., as remarketing agent (the "Remarketing Agent") under a bond purchase contract among the Remarketing Agent, the Authority and the City (the "Bond Purchase Contract"); and

To assist the Remarketing Agent with its responsibilities under Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the "Rule"), it is proposed that the City execute and deliver a continuing disclosure certificate relating to the Bonds (the "Continuing Disclosure Certificate"); now, therefore,

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

Section 1. The Conversion of the Bonds to fixed rates to maturity, on the terms and conditions set forth herein, is hereby authorized and approved.

Section 2. The form of the First Supplemental Indenture, a copy of which is on file in the office of the City Clerk or his or her designee (the "City Clerk") and submitted to this meeting, is hereby approved. The Authority and the Trustee are hereby authorized and directed to enter into the First Supplemental Indenture upon the Conversion of the Bonds as contemplated herein.

Section 3. The form of the First Supplemental Installment Purchase Contract, a copy of which is on file in the office of the City Clerk and submitted to this meeting, is hereby approved. The Mayor, the City Manager and the Chief Financial Officer and the designees of any of them (each, an "Authorized Officer"), each acting alone, are hereby authorized and directed, for and in the name of and on behalf of the City, to execute the First Supplemental Installment Purchase Contract, and the City Clerk is authorized to attest thereto, with such additions and changes therein as the Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the City, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. The form of the Bond Purchase Contract, a copy of which is on file in the office of the City Clerk and submitted to this meeting, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Bond Purchase Contract, and the City Clerk is authorized to attest thereto, with such additions and changes therein as the Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the Authority, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that, following the Conversion, the Bonds shall bear interest at a true interest cost not to exceed 6.75% and the Bond Purchase Contract shall provide for an aggregate remarketing agent's compensation of not more than 1.00% of the principal amount of the Bonds remarketed.

Section 5. The form of the Preliminary Remarketing Memorandum relating to the Bonds (the "Preliminary Remarketing Memorandum"), a copy of which is on file in the office of the City Clerk and submitted to this meeting, is hereby approved, with such additions and changes as may be approved, with the advice of counsel, by any Authorized Officer. The Authorized Officers, each acting alone, are hereby authorized on behalf of the City to certify to potential purchasers of the Bonds that the Preliminary Remarketing Memorandum is deemed "final" (as it relates to the City) for the purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the "Rule") (except for the omission of certain final pricing, rating and related information as permitted by the Rule). The Authorized Officers, each acting alone, are hereby authorized and directed to execute and deliver to the Remarketing Agent a final Remarketing Memorandum (the "Remarketing Memorandum") in substantially the form of the Preliminary Remarketing Memorandum, with such additions and changes as the Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the City, such approval to be conclusively evidenced by the execution of said

Remarketing Memorandum. The printing, delivery and distribution of the Preliminary Remarketing Memorandum and the Remarketing Memorandum is hereby approved, and the Remarketing Agent is hereby authorized to distribute copies of the Preliminary Remarketing Memorandum and the Remarketing Memorandum to persons who may be interested in the purchase of the Bonds and is directed to deliver copies of the Remarketing Memorandum to all purchasers of the Bonds.

Section 6. The form of the Continuing Disclosure Certificate relating to the Bonds, a copy of which is on file in the office of the City Clerk and submitted to this meeting, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized and directed, for and in the name of and on behalf of the City, to execute and deliver the Continuing Disclosure Certificate, and the City Clerk is authorized to attest thereto, with such additions and changes therein as the Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the City, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 7. All actions heretofore taken by any officers, employees or agents of the City with respect to the Conversion and remarketing of the Bonds, are hereby approved, confirmed and ratified; and the Authorized Officers are hereby authorized and directed, for and in the name and on behalf of the City, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents (including but not limited to any tax certifications), which they, or any of them, may deem necessary or advisable in order to consummate the lawful Conversion and remarketing of the Bonds in accordance with this Resolution.

Section 8. This Resolution shall take effect immediately upon its adoption.

Section 9. The Authorized Officers, each acting alone, are authorized to take such other actions as are appropriate to carry out the intent of this Resolution.

PASSED, APPROVED AND ADOPTED _____.

ANTHONY SILVA
Mayor of the City of Stockton

ATTEST:

BONNIE PAIGE
City Clerk of the City of Stockton

STOCKTON PUBLIC FINANCING AUTHORITY

RESOLUTION AUTHORIZING THE CONVERSION OF THE INTEREST RATE PERIOD AND AMENDMENT OF CERTAIN PROVISIONS OF THE STOCKTON PUBLIC FINANCING AUTHORITY VARIABLE RATE DEMAND WATER REVENUE BONDS, SERIES 2010A (DELTA WATER SUPPLY PROJECT); APPROVING THE FORM OF AND AUTHORIZING THE EXECUTION AND DELIVERY OF A FIRST SUPPLEMENTAL INDENTURE, A FIRST SUPPLEMENTAL INSTALLMENT PURCHASE CONTRACT, A BOND PURCHASE CONTRACT, AND A REMARKETING MEMORANDUM RELATING THERETO; AND APPROVING CERTAIN ACTIONS IN CONNECTION THEREWITH

The City of Stockton (the "City") and the former Redevelopment Agency of the City of Stockton entered into a Joint Exercise of Powers Agreement establishing the Stockton Public Financing Authority (the "Authority"), a California joint exercise of powers entity duly organized to provide financial assistance to the City; and

The Authority previously issued its Variable Rate Demand Water Revenue Bonds, Series 2010A (Delta Water Supply Project) (the "Bonds") pursuant to an indenture, dated as of October 1, 2010 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"), to provide funds to the City through an installment purchase financing for the acquisition, construction, installation and improvement of its Delta Water Supply Project; and

In connection with the original issuance of the Bonds, the Authority and the City entered into an installment purchase contract, dated as of October 1, 2010 (the "Installment Purchase Contract"); and

The City now desires to exercise its election under the Indenture to convert the interest rate period of the Bonds to fixed rates to maturity (the "Conversion") and, in connection with such Conversion, the Bonds will be subject to mandatory tender and remarketing under the provisions of the Indenture; and

Concurrently with such Conversion, the City also desires to modify certain terms of the Bonds, the Indenture, and the Installment Purchase Contract and the City has requested that the Authority modify such terms; and

To provide for the modification of the terms of the Bonds and the Indenture, it is proposed that the Authority and the Trustee enter into a First Supplemental Indenture (the "First Supplemental Indenture"); and

To provide for the modification of the terms of the Installment Purchase Contract, it is proposed that the City and the Authority enter into a First Supplemental Installment Purchase Contract (the "First Supplemental Installment Purchase Contract"); and

Upon the mandatory tender of the Bonds on the date of the Conversion, the Bonds will be remarketed by Citigroup Global Markets, Inc., as remarketing agent (the "Remarketing

Agent”) under a bond purchase contract among the Remarketing Agent, the Authority and the City (the “Bond Purchase Contract”); now, therefore,

BE IT RESOLVED BY THE STOCKTON PUBLIC FINANCING AUTHORITY, AS FOLLOWS:

Section 1. The Conversion of the Bonds to fixed rates to maturity, on the terms and conditions set forth herein, is hereby authorized and approved.

Section 2. The form of the First Supplemental Indenture, a copy of which is on file in the office of the Secretary of the Authority or his or her designee (the “Secretary”) and submitted to this meeting, is hereby approved. The Chair, the Executive Director and the Treasurer and the designees of any of them (each, an “Authorized Officer”), each acting alone, are hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute the First Supplemental Indenture, and the Secretary is authorized to attest thereto, with such additions and changes therein as the Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the Authority, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 3. The form of the First Supplemental Installment Purchase Contract, a copy of which is on file in the office of the Secretary and submitted to this meeting, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized and directed, for and in the name of and on behalf of the Authority, to execute the First Supplemental Installment Purchase Contract, and the Secretary is authorized to attest thereto, with such additions and changes therein as the Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the Authority, such approval to be conclusively evidenced by the execution and delivery thereof.

Section 4. The form of the Bond Purchase Contract, a copy of which is on file in the office of the Secretary and submitted to this meeting, is hereby approved. The Authorized Officers, each acting alone, are hereby authorized and directed, for and in the name and on behalf of the Authority, to execute and deliver the Bond Purchase Contract, and the Secretary is authorized to attest thereto, with such additions and changes therein as the Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the Authority, such approval to be conclusively evidenced by the execution and delivery thereof; provided, that, following the Conversion, the Bonds shall bear interest at a true interest cost not to exceed 6.75% and the Bond Purchase Contract shall provide for an aggregate remarketing agent’s compensation of not more than 1.00% of the principal amount of the Bonds remarketed.

Section 5. The form of the Preliminary Remarketing Memorandum relating to the Bonds (the “Preliminary Remarketing Memorandum”), a copy of which is on file in the office of the Secretary and submitted to this meeting, is hereby approved, with such additions and changes as may be approved, with the advice of counsel, by any Authorized Officer. The Authorized Officers, each acting alone, are hereby authorized on behalf of the Authority to certify to potential purchasers of the Bonds that the Preliminary Remarketing Memorandum is deemed “final” (as it relates to the Authority) for the purposes of Rule 15c2-12 promulgated under the Securities Exchange Act of 1934 (the “Rule”) (except for the omission of certain final pricing, rating and related information as permitted by the Rule). The Authorized Officers, each acting alone, are hereby authorized and directed to execute and deliver to the Remarketing Agent a final Remarketing Memorandum (the “Remarketing Memorandum”) in substantially the form of the Preliminary Remarketing Memorandum, with such additions and changes as the

Authorized Officer executing the same shall approve, with the advice of counsel, as being in the best interests of the Authority, such approval to be conclusively evidenced by the execution of said Remarketing Memorandum. The printing, delivery and distribution of the Preliminary Remarketing Memorandum and the Remarketing Memorandum is hereby approved, and the Remarketing Agent is hereby authorized to distribute copies of the Preliminary Remarketing Memorandum and the Remarketing Memorandum to persons who may be interested in the purchase of the Bonds and is directed to deliver copies of the Remarketing Memorandum to all purchasers of the Bonds.

Section 6. All actions heretofore taken by any officers, employees or agents of the Authority with respect to the Conversion and remarketing of the Bonds, are hereby approved, confirmed and ratified; and the Authorized Officers are hereby authorized and directed, for and in the name and on behalf of the Authority, to do any and all things and take any and all actions and execute and deliver any and all certificates, agreements and other documents (including but not limited to any tax certifications), which they, or any of them, may deem necessary or advisable in order to consummate the lawful Conversion and remarketing of the Bonds in accordance with this Resolution.

Section 7. This Resolution shall take effect immediately upon its adoption.

Section 8. The Authorized Officers, each acting alone, are authorized to take such other actions as are appropriate to carry out the intent of this Resolution.

PASSED, APPROVED AND ADOPTED _____.

ANTHONY SILVA, Chairman
Stockton Public Financing Authority

ATTEST:

BONNIE PAIGE, Secretary
Stockton Public Financing Authority

NEW BUSINESS



AGENDA ITEM 15.2



Legislation Text

File #: 13-0633, **Version:** 1

NORTH INTERSTATE 5 REHABILITATION PROJECT

RECOMMENDATION

None. For information only.

Summary

The California Department of Transportation (Caltrans), as the lead agency, has awarded a construction contract to DeSilva Gates Construction Company of Sacramento, CA, in the amount of \$46,035,300, for the North Interstate 5 (I-5) Rehabilitation project. This project will rehabilitate I-5 from Dr. Martin Luther King Jr. Boulevard (Charter Way) to Country Club Boulevard. All work will be performed within Caltrans right-of-way. Construction began in May 2013, and should be completed by summer of 2015.

The proposed improvements will replace the existing eight lanes with new long life concrete pavement, widen the inside shoulders from five feet to 10 feet, reconstruct outside shoulders and auxiliary lanes, and replace existing metal beam median guard rail with concrete median barriers. The total cost for the project is estimated to be \$53,959,300. Funding is from the State Highway Operation and Protection Program (SHOPP).

DISCUSSION

Background

In November 2009, Caltrans began the preliminary design/environmental document phase of a project to rehabilitate I-5 from Dr. Martin Luther King Jr. Boulevard (Charter Way) to Country Club Boulevard. The proposed improvements include: 1) replacing existing concrete pavement with continuously reinforced concrete pavement; 2) widening the inside shoulders to 10 feet; 3) reconstructing outside shoulders and auxiliary lanes; and 4) replacing existing metal beam median guard rail with concrete median barriers.

The total estimated project cost is \$53,959,300. Funding is from the SHOPP, which funds major capital improvements designed to preserve and protect the State highway system. Projects included in the SHOPP are restricted to those that maintain and rehabilitate State highways and bridges, and which do not add new traffic lanes to the system.

Caltrans is the lead agency on the North I-5 Rehabilitation project and is responsible for delivery. City staff has attended Project Development Team meetings with Caltrans, in order to evaluate and comment on the project impacts on city streets. Construction of the project will be done in four stages, with a significant number of temporary ramp closures during Stage 2 when the outside

shoulders and auxiliary lanes are being constructed. An overview of the construction stages which outlines traffic impacts for this project is included as Attachment B.

On October 28, 2009, Caltrans filed a Categorical Exemption, since the project is exempt from the requirements of the California Environmental Quality Act.

Present Situation

On December 10, 2012, Caltrans awarded a construction contract to DeSilva Gates Construction Company of Sacramento, CA, in the amount of \$46,035,300, for the North I-5 Rehabilitation project. Construction began in May 2013, and construction is currently in Stage 1. The project is estimated to be completed by summer of 2015 (Attachment A). Mr. Iorzua Akuva, Caltrans Project Manager, will provide an informational presentation to Council that will explain the details of the project.

Staff will continue to participate in the project construction by attending the weekly construction meetings, as needed.

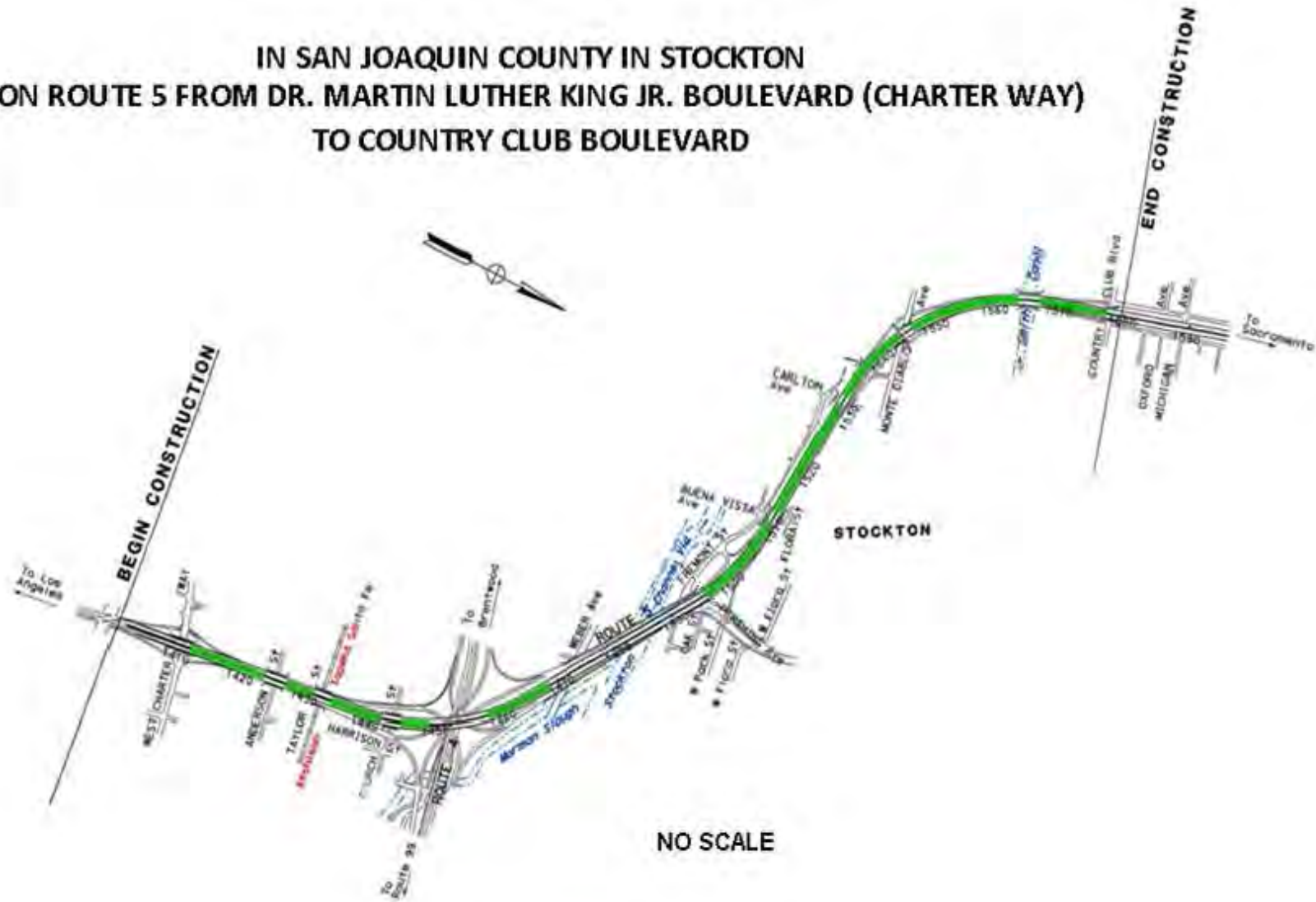
FINANCIAL SUMMARY

No financial action is required.

Attachment A - Vicinity Map

Attachment B - Construction Overview

IN SAN JOAQUIN COUNTY IN STOCKTON
ON ROUTE 5 FROM DR. MARTIN LUTHER KING JR. BOULEVARD (CHARTER WAY)
TO COUNTRY CLUB BOULEVARD



NORTH INTERSTAE 5 REHABILITATION PROJECT STAGE CONSTRUCTION GENERAL OVERVIEW			
Stage 1	Median Work - No Detours/Ramp Closures		
Stage 2	Construct Outside Shoulders, Lane #4, and Auxiliary Lanes between Charter Way & Country Club Boulevard NB and SB directions		
Stage 2A	Northbound Direction – Ramp Closures:	Closure Days	
	I-5 NB Connector to east SR4	Closed	54 hours - Detour from I-5, traffic directed to SR120 to NB SR99 and to eastbound SR4
	Charter Way Off-Ramp	Open	
	Charter Way On-Ramp closed to I-5, but open to SR4	Closed	54 hours
	SR4 to NB Connector to I-5	Open	One lane
	Pershing On-Ramp	Closed	30 days
	Pershing Off-Ramp	Open	
	Monte Diablo Off-Ramp	Closed	54 hours
	Monte Diablo On-Ramp	Closed	30 days
	NB Country Club Blvd. Off-Ramp	Closed	54 hours
Stage 2B	Southbound Direction - Ramp Closures:	Closure Days	
	SR4 Connector to SB I-5	Closed	54 hours
	Fremont On-Ramp to I-5	Open	
	Fremont Off-Ramp	Closed	54 hours
	Monte Diablo On-Ramp	Closed	30 days
	Monte Diablo Off-Ramp	Closed	25 days
	Country Club Blvd. On-Ramp	Closed	54 hours
	I-5 to SR4	Open	
Charter Way Off-Ramp	Open		
Stage 3	Northbound Direction – Construct Lane #1, 2, and 3		
Stage 3A	Split three lanes of NB traffic; two lanes to SB direction, and one lane to Lane #4 of NB, and construct Lanes #1, 2, and 3 of NB from Pershing Avenue to Country Club Blvd.		
Stage 3B	Split three lanes of NB traffic; two lanes to SB direction, and one lane to Lane #4 of NB, and construct Lanes #1, 2, and 3 of NB from Charter Way to Pershing Avenue		
Stage 4	Southbound Direction – Construct Lane #1, 2, and 3 – No Ramp Closures		
Stage 4A	Split three lanes of SB traffic; two lanes to NB direction, and one lane to Lane #4 of SB, and construct Lanes #1, 2, and 3 of SB from Charter Way to Pershing Avenue		
Stage 4B	Split three lanes of SB traffic; two lanes to NB direction, and one lane to Lane #4 of SB, and construct Lanes #1, 2, and 3 of SB from Pershing Avenue to Country Club Blvd.		

NEW BUSINESS



AGENDA ITEM 15.3



Legislation Text

File #: 13-0634, **Version:** 1

ACCEPT FEDERAL FUNDING FOR CONSTRUCTION AND APPROPRIATE FUNDS TO THE PROJECT ACCOUNT OF THE WEBER AVENUE STREETScape BEAUTIFICATION, PHASE 2 (PROJECT NO. 13-27)

RECOMMENDATION

It is recommended that the City Council approve a motion authorizing the City Manager to accept \$2,610,122 in federal Transportation Enhancement (TE) funds, and \$551,800 in federal Regional Surface Transportation Program (RSTP) funds, and to appropriate the \$3,161,922 total to the project account for the Weber Avenue Streetscape Beautification, Phase 2 (Project No. 13-27).

It is further recommended that the motion authorize the City Manager to take appropriate actions to carry out the purpose and intent of this motion.

Summary

Weber Avenue Streetscape Beautification, Phase 2, is the final phase of the Weber Avenue Streetscape Beautification Master Plan. This phase will beautify and improve Weber Avenue from Stanislaus Street to the Union Pacific Railroad tracks. The project includes installing landscaped medians, reconstructing the roadway and sidewalks, adding tree wells, and installing pedestrian bulb-outs. Improvements also include upgrading storm drain piping between American Street and Stanislaus Street.

The project design and environmental documents were approved by Council on November 15, 2011 (Resolution No. 11-0313). Construction of the project was postponed until funding could be obtained. In January 2013, TE funds became available in our region, and Public Works' staff began working to qualify the project for those funds.

On June 11, 2013, the California Transportation Commission (CTC) accepted the City's application and authorized federal TE funding of \$2,610,122 to Stockton. In addition, the San Joaquin Council of Governments (SJCOG) has approved an advance of the City's federal RSTP funds to complete the funding of the project at a total construction cost of \$3,161,922. Public Works' staff recommends that these funds be accepted and appropriated to the project account.

DISCUSSION

Background

In 2001, Council approved the Weber Avenue Streetscape Beautification Master Plan (Resolution No. 01-0030). The Master Plan included improvements extending along Weber Avenue from Center Street to the Union Pacific Railroad tracks at Cabral Station. The Master Plan included a variety of

improvements to provide a unified and pedestrian-friendly streetscape. Streetscape features included: sidewalks, corner bulb-outs that shorten the path of travel for pedestrians at intersections, landscaped medians, and street amenities, such as benches, trash receptacles, bicycle racks, street trees, and decorative street lights.

In 2003, streetscape beautification improvements were constructed along Weber Avenue from Center Street to Stanislaus Street, leaving three blocks from Stanislaus Street to the Union Pacific Railroad tracks unimproved.

In 2009, the Public Works Department used a \$245,000 Measure K Smart Growth Incentive Program grant from SJCOG, matched by an equal amount of Measure K Maintenance funding, to retain Siegfried Engineering, Inc. to complete the final design of the remaining improvements between Stanislaus Street and the Union Pacific Railroad tracks (Attachment A). Two public meetings were held, and the comments from downtown constituents were considered and incorporated into the project's final design.

On November 15, 2011, Council approved the final design plans and adopted the Initial Study/Mitigated Negative Declaration and Mitigation Monitoring Report Program for the project (Resolution No. 11-0313). A Notice of Determination was filed under the California Environmental Quality Act. The associated staff report advised that the project, at that time, was unfunded and that the City would be seeking grant funding to proceed to the construction stage.

Present Situation

In early January 2013, SJCOG advised Public Works' staff that TE funds previously authorized to projects in other cities were becoming available for reassignment, meaning that the funds had not been utilized within the original funding deadlines, and were therefore being returned to a pool for assignment to other projects. To qualify for fund reassignment, projects would need to be "shovel ready", meaning that projects would need to be completely designed including environmental documentation. Staff recommended submission of Weber Avenue Streetscape Beautification, Phase 2, and SJCOG staff concurred. Public Works, SJCOG, and Caltrans staff then worked to qualify the project for federal funding and to secure that funding.

National Environmental Policy Act clearance for the project was completed by Caltrans on April 11, 2013. TE funding for the project was approved by the CTC on June 11, 2013, in the amount of \$2,610,122. Staff submitted a Request for Authorization to Caltrans on July 2, 2013, to secure Federal Highway Administration approval to allow the City to advertise the project for bids and construction. Authorization is anticipated in late August 2013.

To complete the construction funding, SJCOG has agreed to advance \$551,800 in RSTP funds to the City. RSTP funds are available on a formula basis to all cities and the County for transportation improvements. The \$551,800 advance will eventually be subtracted from the City's future federal transportation apportionment, which averages about \$1.9 million per year. However, there is no immediate foreseeable impact, because other jurisdictions have not used their full RSTP allotments. The City uses RSTP funds for a variety of transportation improvements with the core use being street resurfacing.

Staff recommends that both the TE and RSTP funds be accepted and appropriated to the project

account.

FINANCIAL SUMMARY

From a construction standpoint, this is a 100 percent federally funded project. Rather than mix funding and phases with the previous design project, staff recommends that an entirely new project number be established for the construction portion. The following appropriation is recommended:

Appropriate To:

308-3020-640 (PW1327)

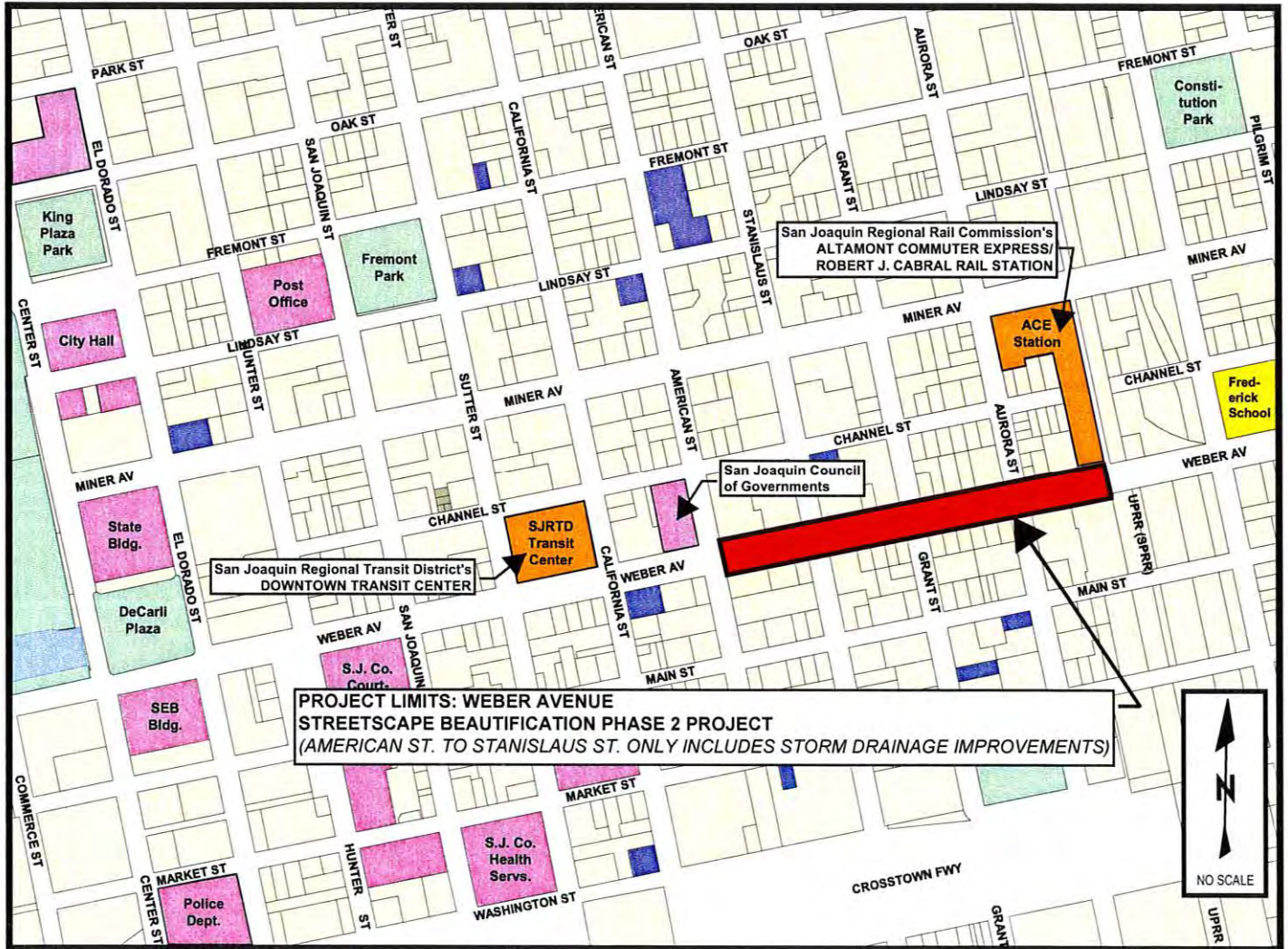
Federal funds, Weber Avenue Phase 2 \$3,161,922

There is no impact to the City's General Fund or to any other unrestricted fund as a result of taking the recommended action.

Attachment A - Vicinity Map

PROJECT LOCATION MAP

Weber Avenue Streetscape Beautification Project, Phase 2



Government Building/Facility	Public Transit Facility
Park/Recreation Facility	Church/Place of Worship
School Site	Proposed Project Limits

NOTE:
Weber Avenue is currently designated as Class III bicycle facility between Interstate 5 and Airport Way.

LEGEND

NEW BUSINESS



AGENDA ITEM 15.4



Legislation Text

File #: 13-0636, **Version:** 1

RESPONSES TO 2012-2013 GRAND JURY REPORTS

RECOMMENDATION

It is recommended that by motion action the City Council approve the attached responses to the five 2012-2013 Grand Jury Reports related to the City of Stockton and authorize the City Manager to sign the response letters on behalf of the City and transmit them to the Presiding Judge of the Superior Court of San Joaquin County.

Summary

The 2012-2013 Grand Jury for San Joaquin County investigated and reported on five cases in which the City of Stockton was an interested party:

- Crime - Budget Cuts + AB 109 ≠ Safe Communities - Case No. 0912
- Mosquito and Vector Control District Board Ignores Peoples' Right to be Informed - Case No. 1112
- Recovering from Stockton's Financial Sinkhole - Case No. 0112
- Improving Disposal of City and County Surplus Public Assets - Case No. 0312
- 2012-2013 Law and Justice Report

Four of the above cases reviewed issues from a broader perspective that included the County and all cities within the County. The City was asked to respond to a relatively small number of findings and recommendations for these broader investigations. The one case that was distinct to the City of Stockton was related to the City's financial condition. A more in-depth response was prepared for this investigation. A letter responding to each of the five cases is included with this staff reports as well as a copy of each respective Grand Jury report Attachments (A-E).

DISCUSSION

Background

The 2012-2013 Grand Jury conducted five investigations in which the City of Stockton was a relevant party. The investigations occurred throughout the 2012-2013 fiscal year. The City received preliminary notice of the Grand Jury reports in May and the final reports were published publicly in May and June. The City was given 90 days to address to the findings and recommendations assigned by the Grand Jury for response. Staff has prepared responses to each of the findings and recommendations for the five Grand Jury Cases. Letters to the Presiding Judge of the Superior Court of San Joaquin County have been prepared for your review and approval. Approval of these letters at your August 13 Council Meeting will comply with the 90 day response requirement.

Present Situation

Crime - Budget Cuts + AB 109 ≠ Safe Communities - Case No. 0912

The Grand Jury conducted a broad assessment of public safety in the County in light of high crime, budget cuts and the realignment of detention responsibilities between the State and counties. The City of Stockton responded to findings and recommendations related to reduced staffing levels, retention of employees and the use of technology and partnerships to assist in addressing crime. In summary, the City's responses focused on the outstanding efforts the Police Department has made in strategically deploying scarce resources as well as the City's efforts and commitment to addressing crime through the Marshall Plan (Attachments A1 and A2).

Mosquito and Vector Control District Board Ignores Peoples' Right to be Informed - Case No. 1112

The Grand Jury also conducted an investigation related to health care benefits provided to Mosquito and Vector Control District Board Trustees as well as concerns with transparency of Board activities. The City responded to findings and recommendations related to making appointments to the Board, term limits for Board Trustees and whether or not the District was a necessary entity. The Grand Jury recommends term limits and posed the question as to whether the District is the appropriate entity for carrying out its chartered mission. Given the nature of the findings and recommendations by the Grand Jury, staff recommends that the City not take a position on Board Trustee term limits or whether the District is a necessary entity. The appropriate entity and forum for addressing terms limits and the best means for providing vector control services is with the governmental agency to which the District Board is legislatively responsible, the County (Attachment B1 and B2).

Recovering from Stockton's Financial Sinkhole - Case No. 0112

The investigation by the Grand Jury that was distinct to the City of Stockton was a review of our financial condition. Council is well aware of the attention that our financial condition has drawn. The findings and recommendations of the Grand Jury are comparable to those that City staff, Management Partners, external auditors and other outside entities have already pointed out. The City has responded to the majority of these issues through other reports and audits. The City pointed the Grand Jury to the numerous materials outlining our detailed efforts to get our fiscal house in order and provided summary responses to each of the findings and recommendations found in their report (Attachment C1 and C2).

Improving Disposal of City and County Surplus Public Assets - Case No. 0312

The Grand Jury conducted an investigation of the policies and procedures for disposing of surplus public assets for the County and all the cities within the County. In general the Grand Jury was complimentary of the City, recognizing the policies and processes that are in place to govern the surplus of City assets. The City responded to findings and recommendations to execute a new surplus auction agreement, to provide a report of surplus properties sold in 2011. Staff also included in the response letter our plans to develop a more robust surplus property sales policy and reporting procedure (Attachment D1 and D2).

2012-2013 Law and Justice Report

The 2012-2013 Law and Justice Report investigated a variety of public safety issues. Several had little to no relation to operations of the City of Stockton, including investigations of the Deuel Vocational Institution, the Northern California Youth Center, the San Joaquin County Jail, and the San Joaquin County Juvenile Detention Center. There were two elements of the Law and Justice Report that were directly related to the City of Stockton. First, the Grand Jury investigated Temporary Detention Facilities and Property Rooms throughout the County. The detention facilities for the City of Stockton were deemed to be adequate and the property room for the City of Stockton was found to be well organized and maintained. There were no findings or recommendations related to this investigation. Second, the Grand Jury participated in ride alongs with numerous public safety agencies throughout the County. The City responded to findings and recommendations related to placing Global Positioning Services (GPS) devices in Fire Engines that do not currently have that equipment (Attachment E1 and E2).

FINANCIAL SUMMARY

The submission of these response letters has not immediate impact on the City's finances. However, implementation of the Grand Jury recommendations is another matter. Many of the Grand Jury recommendations can be accommodated within existing resources and other recommendations are already part of our future plans. However, as implementation of some Grand Jury recommendations moves forward, staff will provide your Council with a summary of the financial impacts of those actions.

- Attachment A1 - Response Letter - Crime - Budget Cuts + AB 109 ≠ Safe Communities
- Attachment A2 - Grand Jury Report - Crime - Budget Cuts + AB 109 ≠ Safe Communities
- Attachment B1 - Response Letter - Mosquito and Vector Control District
- Attachment B2 - Grand Jury Report - Mosquito and Vector Control District
- Attachment C1 - Response Letter - Recovering from Stockton's Financial Sinkhole
- Attachment C2 - Grand Jury Report - Recovering from Stockton's Financial Sinkhole
- Attachment D1 - Response Letter - Improving Disposal of City and County Surplus Public Assets
- Attachment D2 - Grand Jury Report - Improving Disposal of City and County Surplus Public Assets
- Attachment E1 - Response Letter - 2012-2013 Law and Justice Report
- Attachment E2 - Grand Jury Report - 2012-2013 Law and Justice Report

August 13, 2013

Presiding Judge
San Joaquin Superior Court
222 East Weber Avenue
Stockton, CA 95202

CITY OF STOCKTON RESPONSE
2012-13 CASE NO. 0912 – AMENDED REPORT 5/23/13
CRIME – BUDGET CUTS + AB 109 ≠SAFE COMMUNITIES

In accordance with Sections 933 and 933.05 of the California Penal Code, the City Council of the City of Stockton responds to the Grand Jury Report on the above-referenced case as follows:

FINDINGS

F 1.1 The staffing of all law and justice agencies in the County has been reduced increasing the threat to the safety of citizens and their property.

***Response:** The respondent agrees with this finding. To mitigate the impact, the Stockton Police Department eliminated most of its special teams and reduced response to calls for service. The Department has developed innovative practices and partnerships to do more with less and to strategically deploy resources where they are more necessary. In particular, the Police Department initiated the Violence Reduction Strategy and is participating in the Community Corrections Task Force. The Department has also supported other initial efforts associated with the Marshall Plan on Crime including early implementation of Operation Ceasefire. The Department remains committed to responding to all in progress crimes and emergencies. Other initiatives that address this issue include refocusing the Department to target guns and gangs, and emphasis on the four “P”s: Pursuit, Predict, Prevent, and Partner.*

F 1.2 The Stockton Police Department has maintained an aggressive recruitment program but has not been able to increase its staffing due to the number of officers leaving the department.

Response: *The respondent agrees with this finding. The Stockton Police Department has now hired an unprecedented 111 police officer trainees/recruits since January 2012. However, the Department has only realized a small net gain of officers through retirements, terminations, and resignations. This has also resulted in a significantly less-experienced workforce overall. The retention problem seems to be subsiding but remains a hindrance to the Department's ability to fill its ranks. We are now at full general fund staffing levels and are recruiting to fill the 17 grant funded positions. The Department has been actively engaged in researching potential retention strategies and has employed those efforts best suited to our situation.*

F 1.4 Continued and increased use of current technologies would make law enforcement agencies more efficient and offset some of the decreased staffing.

Response: *The respondent agrees with this finding and remains committed to employing advanced technologies to improve efficiencies. The Stockton Police Department has a long-standing Technology Steering Committee, which meets monthly to evaluate new and existing technologies. The Committee makes recommendations to the Chief of Police as to the Department's purchase, implementation and use of technology, and provides a technology roadmap for the future. This has institutionalized the Department's commitment to enhancing efficiency through technology. Examples of cutting edge technology the Stockton Police Department is using at little to no cost to the City are the Fusion latent fingerprint device, a handheld mobile device that captures and submits latent prints remotely and identifies persons of interest at crime scenes in near real-time (through a partnership with Homeland Security); BAIR Analytics software services which provides the necessary tools to analyze real-time data and predictive analysis; and the Shotspotter gunshot detection program which uses audio sensors installed in designated coverage areas to accurately identify and locate gunshots, sends alerts to the police department (usually within one minute), and plots the shot locations on a map.*

F 3.1 The duplication of special units, specialized training and police functions (e.g., property room, dispatch, investigation technicians) cause inefficient use of limited resources.

Response: *The respondent agrees with this finding in that duplication of certain functions can cause inefficient use of limited resources; however the special units, task forces, and teams are actually a highly effective and efficient use of limited personnel and funding. The Stockton Police*

Department takes a regional approach and shares resources in their efforts to combat crime, specifically illegal gun and gang violence. Examples are our participation in the FBI Violent Crime Task Force, U.S. Marshals Fugitive Apprehension Task Force, ATF Task Force, Countywide Gang Task Force, Countywide Metro Narcotics Task Force, and Countywide Firearms Reduction Consortium. In addition, for auto theft, we participate in the Delta Regional Auto Theft Task Force. The existing and evolving cooperative law enforcement efforts in San Joaquin County are currently very progressive and robust. These specialized units and task forces are actually ideal as most agencies depend solely on the services of task forces to address specific types of crimes.

With all due respect to the Grand Jury report, it should also be noted that the County actually has a Metropolitan Explosive Ordinance Team. Several cities within the County have their own bomb technicians and direct control over those personnel and some pieces of equipment, however the team shares control over the major pieces of equipment, regularly conducts joint training, shares resources, and responds to assist one another throughout the County when the need arises.

Additionally, investigation technicians from the Stockton Police Department and San Joaquin County Sheriff's Office are jointly assigned to the unique/specialized work of conducting ballistics analysis utilizing the Integrated Ballistics Identification System. This work is done alongside a certified Firearms Examiner contracted through grant funding administered by the county Firearms Reduction Consortium.

F 3.2 There are examples of cooperation between different agencies in the County but each agency still operates autonomously most of the time.

Response: *The respondent agrees with this finding. The individual organizations must maintain a degree of separation because they are required to respond to the specific needs and/or requests of their local communities and elected leaders. Stockton is unique when compared to Tracy or Lodi for example. However, the culture of all the agencies within the county is very cooperative and open. Communication is frequent due in large part to the numerous existing task forces and combined specialized units that have fostered solid personal working relationships amongst agency personnel. Additionally, there are numerous ongoing meetings of countywide agency partners to share information on a vast range of crime/criminal justice related issues.*

RECOMMENDATIONS:

- R 1.1.2 Each City Council, before September 1, 2013, adopt a policy that states it is a priority of the City to increase staffing for law enforcement, including patrol and probation.

Response: *The Stockton City Council endorsed the Marshall Plan Project Report on April 2, 2013, which specifically recognizes the need for additional police officers as part of its comprehensive crime reduction strategy. The Council also placed a funding measure for the Marshall Plan on the November 5th ballot.*

- R 1.2 The Stockton City Council, before December 31, 2013, identify provisions that promote the retention of law enforcement staff and approve a plan for the implementation of the retention provisions identified.

Response: *The Stockton Police Department has maintained an aggressive recruitment effort resulting in an unprecedented number of new officers being hired. The loss of more tenured officers through resignations and retirements was substantial and acute during 2012, but has since slowed significantly. The City recognizes the need to retain and expand current staff within the police department and will remain cognizant of this issue as it proceeds through its severe fiscal challenges.*

As noted in the response to F 1.2, the Police Department has been actively engaged in researching potential retention strategies. These strategies have been reviewed with the City Council and the Police Department has employed those efforts that are best suited to our situation.

- R 1.4 The Sheriff's Department and each city's police department review their current use of crime prevention technologies and develop a plan to implement new technologies that could help increase the efficiency of their agencies.

Response: *As noted in the response to Finding F 1.4, the Stockton Police Department has an existing, long-standing Technology Steering Committee that fulfills this recommendation.*

- R 3 The Board of Supervisors and the City Councils of Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton and Tracy, before September 1, 2013, each appoint two representatives, one to represent law enforcement and one to represent the governing body or management, to form an ad hoc committee. The committee's purpose is to conduct a study on how to increase countywide efficiency of law enforcement agencies by taking a

regional approach to some or all of their services. A preliminary report is to be released before December 31, 2013, of actions already taken to increase efficiency and additional actions that will be taken between January 2014 and June 2015.

Response: *The respondent partially agrees with this recommendation. In principal, the City of Stockton is supportive of efforts to increase the collaboration and efficiency between partner agencies. Because the City is supportive of these efforts, Stockton has been very engaged in recent years with the County and numerous agencies associated with public safety. A key tenet of the Marshall Plan on Crime is for all parties in the criminal justice system to collaborate and address crime from a comprehensive systems approach. The City of Stockton submits that that Marshall Plan on Crime is in fact an already completed study and analysis of ways to improve countywide efficiency of law enforcement. The Marshall Plan represents a series of recommendations developed by a stakeholder group over the past year. This stakeholder group was made up of not only elected officials and law enforcement executives from the City and County, but from included representatives from the business community, schools, community organizations and faith based organizations. The Marshall Plan contains elements that will revitalize the entire criminal justice system and put in place evidenced based approaches that are proven to be effective. The City of Stockton submits that the Marshall Plan on Crime is and will continue to fulfill the intent of this recommendation. The City is fully committed to moving forward with implementation of the Marshall Plan on Crime.*

BOB DEIS
CITY MANAGER

BD:EJ

San Joaquin County Grand Jury



Crime - Budget Cuts + AB 109 ≠ Safe Communities 2012-2013 Case No. 0912

Summary

Crime is a serious issue in our local communities. Declining budgets have taken their toll on staffing throughout the law and justice system in San Joaquin County. The 2010-2011 Grand Jury issued a report titled *Budgetary Impact on Administration of Justice in San Joaquin County*, which provided an overview of crime in the County at that time and how budget reductions and staffing shortages negatively impacted public safety. Today, local newspapers continually report violent crimes. People are becoming more and more concerned about their safety. Even though the law and justice system is doing all it possibly can to protect public safety, countless issues are working against their efforts because of staff shortages and diminished resources.

The 2012-2013 San Joaquin Grand Jury (Grand Jury) studied the County's law and justice system in an effort to develop ideas to help reduce crime throughout the County. While the Grand Jury does not have the authority to change the system, it does have the responsibility to investigate, to determine findings, and to develop recommendations that could have a positive impact on the present situation. This report addresses three areas within the law and justice system: law and justice staffing, county jail capacity and law enforcement leadership.

Staffing has been reduced in all areas of the law and justice system. These reductions have negatively affected the level of all services provided. The Grand Jury is recommending the County and Cities adopt policies to increase law enforcement staffing.

The County Jail is overcrowded. In order to stay within a court-mandated capacity, inmates are regularly released before serving their full sentences. The Grand Jury recommends the County Board of Supervisors approve funding for much needed jail bed capacity, and that the approval include sufficient staffing to supervise the additional capacity.

San Joaquin County has talented people in leadership positions within the various law enforcement entities. However, the limited coordination between the different agencies must be increased. The Grand Jury is recommending that a committee be established to study methods and options to increase efficiencies in county-wide law enforcement.

Glossary

AB 109	California Assembly Bill 109 passed in 2011 provided relief for overcrowding in State prisons; also known as realignment.
AB 109 Inmate	A person serving a sentence in the county jail that would have been in a State prison prior to AB 109.
CBO	Community Based Organization.
CCP	Community Corrections Partnership; the County group tasked with receiving and distributing AB 109 funds.
CDCR	California Department of Corrections and Rehabilitation.
CHP	California Highway Patrol.
Court Cap	The County Jail capacity that was set by the San Joaquin County Superior Court.
DA	San Joaquin County District Attorney.
Defendant	Someone who has been arrested but not tried for a crime; might be held in jail.
FBI	Federal Bureau of Investigation.
GPS Monitor	A device usually worn on the ankle that uses signals from satellites to determine location.
Honor Farm	A component of the San Joaquin County Jail that houses low risk inmates.
ICE	Immigration and Customs Enforcement; a federal agency.
Inmate	Anyone who is detained in a jail or prison; jail inmates include defendants and offenders.

Stockton's Marshall Plan	A plan to address the city's crime issues; with <i>Operation Ceasefire</i> as a major component.
Metropolitan Police	Merger of local police/sheriff's departments into one law enforcement agency which serves a metropolitan area/county.
Non/non/non	A non-serious, non-violent, non-sex crime as identified by AB 109.
Offender	Someone who has been convicted of a crime; often serves time in jail.
Operation Ceasefire	Stockton's partnership-based violence reduction strategy that employs respectful, direct communication with youth and young adults at highest risk of violence; primary goal is to reduce shootings.
Parole	Post-release supervision after serving time in a State prison.
Probation	Supervision of offender not in county jail.

Background

Local news has featured stories about law and justice issues throughout the County. Headlines used have included "S.J. Jail full", "Prosecutors: Man raped, killed grandmother, Suspect freed early from crowded jail days before slaying", "County OKs \$15.2M for realignment", "S.J. expected 82 parole violators, instead got 1,752", and "Bullets fly during lunch-hour shootout".

The 2010-2011 San Joaquin County Grand Jury wrote an informational report titled "*Budgetary Impact on Administration of Justice in San Joaquin County.*" This report provided statistics regarding crime in the County. It also analyzed the impact of reduced budgets on our law and justice system which includes police departments, the Sheriff's Department, courts, the County Jail, Probation, the District Attorney and the Public Defender. That report included no recommendations but it painted a bleak picture regarding the rise in crime.

The Grand Jury toured the Deuel Vocational Institution and the San Joaquin County Jail in September and October of 2012. Members of the Grand Jury also participated in numerous ride-alongs with different law enforcement agencies. During these interactions with law enforcement professionals, AB 109 was frequently mentioned and examples were provided regarding the law's impact to County public safety organizations. As this complex information was being discussed, it became apparent that additional information was required to understand the far-reaching issues associated with AB 109. As a result of the press reports, discussions and tours, this investigation was initiated.

During the investigation, the Grand Jury observed many examples of the community's concern about public safety. On September 27, 2012, Sacramento's Channel 10 News hosted "Stockton, A City in Crisis" at the University of the Pacific (UOP) and drew a standing-room-only crowd.

On November 14, 2012, hundreds of citizens attended a meeting to learn about *Project Ceasefire*, a program instituted by the Stockton Police Department targeting violence. On November 15, 2012, hundreds attended another meeting at UOP to hear a panel of County law and justice leaders discuss the issues they are facing and what citizens could do to help. On February 8, 2013, hundreds attended a meeting to hear about the proposed *Stockton's Marshall Plan*. The large participation, the range of questions asked and the frustration exhibited by those attending these meetings supported the Grand Jury's conviction that it was investigating a topic of wide-spread interest and grave concern to our communities.

Two goals were established for this investigation. First, the Grand Jury wanted to help the County's law and justice agencies during this crisis of crime. At the same time, the Grand Jury wanted to give the public hope that crime could be reduced. The Grand Jury realized that new and creative solutions were needed: Doing more with less was not enough. Comments repeated during interviews such as "*We can't do that...*" and "*...that is the way we have always done it*" were not acceptable. Joint meetings between law enforcement agencies, county-wide task force efforts and some multiagency operations lasting a day or two were typical approaches observed. The Grand Jury used its unique county-wide perspective along with extensive research to determine creative findings and recommendations.

The Grand Jury also determined that this investigation could not include all aspects of the law and justice system. The Grand Jury made a conscious decision to not study many of the programs in the County that dissuade individuals from the life of crime. Three of these areas are: Support provided to our communities by Community Based Organizations (CBOs) to deter people from committing crimes; Programs in jails and prisons for inmates to obtain the education, training, and resources to help them on their reentry into society; and Support provided by CBOs to offenders after their release so they will not reoffend.

San Joaquin County is comprised of seven incorporated cities, one community services district and one large unincorporated area. The San Joaquin County Sheriff's Department (Sheriff's Department) is responsible for the County Jail and court services (bailiffs/prisoner security) at the Superior Courthouses in Stockton, Manteca and Lodi. In addition, the Sheriff's Department is responsible for law enforcement in all of the unincorporated areas and for the Mountain House Community Services District. The City of Lathrop's Police Services consists of a contracted force provided by the Sheriff's Department. Each of the other cities has its own police chief and police department. The Sheriff is an elected position and all police chiefs are appointed.

The County also supports certain aspects of other law enforcement within the justice system: For example, the Probation Department provides supervision of offenders in lieu of incarceration or after their release. This department is also responsible for the operation of the juvenile hall. The Superior Court, and staff necessary for its operation, is under the auspices of the State. To support the courts, the County's District Attorney's office prosecutes cases and the Public Defender's office provides for the defense of the accused. The District Attorney is elected and all other leaders are appointed.

When studying the law and justice system, it becomes obvious that all components are interconnected. Police departments, the Sheriff's Department, courts, the County Jail, Probation, the District Attorney and the Public Defender are all intertwined. A problem in any one component affects all other components.

AB 109

Early in this investigation, the Grand Jury learned about AB 109/Realignment and its impact on public safety. This bill was the State's response to the 2009 ruling by a federal three-judge court which found that crowding in California's prisons was a primary cause of inadequate health care for prisoners. The federal court ordered California to reduce its prison population. The U.S. Supreme Court upheld that order in May 2011.

The provision of AB 109 that most affected the County was that offenders of non-violent, non-serious, non-sex felonies (referred to as *non, non, non*-offenses) would serve their sentences in county jails rather than state prisons. The implementation of AB 109 has caused major operational and budgetary problems for county jails throughout the state, including San Joaquin County Jail. An offender of a *non, non, non*-offense serves his/her sentence in a county jail regardless of whether he/she has been convicted before of any serious felonies; Prior to AB 109, the maximum sentence served in a county jail was one year; AB 109 offenders can be sentenced to as many as nine years at the county jail.

California county jails were not designed for multi-year incarceration of inmates convicted of serious crimes. In addition, rehabilitation programs for county jail inmates were not intended for multi-year sentences.

AB 109 has been very effective in easing the overcrowding in the State prisons, but all too often at the expense of the counties, in terms of financial and public safety costs. Hundreds of AB 109 inmates that would otherwise be in State prisons are now detained in county jails. According to *"Realigning the Revolving Door? An Analysis of California Counties' AB 109 Implementation Plans"* published by the Stanford Criminal Justice Center "AB 109 transferred an unprecedented amount of responsibility to counties."

Another provision of AB 109 has yet to be implemented but will further impact our County. Currently, the California Division of Adult Parole Operations system is responsible for all state prison parolees. Commencing July 1, 2013, most post-release supervision of offenders from the State prison system will be conducted by the County Probation Department. The State will then only supervise parolees who were convicted of a serious or violent offense; were convicted of a third strike offense; are classified as a Mentally Disordered Offender; or are high-risk sex offenders.

Major implications of AB 109 were cited in a study by The Chief Justice Earl Warren Institute on Law and Social Policy at the University of California, Berkeley's School of Law. Their article titled *"Thinking Critically About Realignment in California"* stated in part:

“Transferring individuals from overcrowded state prisons to overcrowded county jails will likely lead to more [inmate] lawsuits.” “County jails were not built for long term sentences, but with realignment a greater number of individuals will be staying in county jail for much longer than a year.” Studies such as this have validated local concerns about the impact of AB 109.

In February 2013, a woman was murdered in San Joaquin County and an AB 109 offender was charged with the crime. The AB 109 offender had reportedly been in and out of jail on parole violations five times or more in the last year. Over the last eight months, there were at least seven instances where he tried to tamper with his GPS monitor or tried to hide from authorities. On February 20, 2013, he pled guilty to charges of failing to register as a sex offender and was sentenced to serve 30 days in jail. The next day, he was released from jail because the population exceeded the court cap. Six days after his release, his grandmother was raped and murdered. He was apprehended, charged with the murder of his grandmother and sent back to jail.

California’s 2009 Senate Bill (SB) 678 created a Community Corrections Partnership (CCP) in each county. The passage of AB 109 expanded the role of the CCPs and established an executive committee for each CCP. This executive committee is comprised of:

The Chief Probation Officer who chairs the executive committee

A Chief of police

The Sheriff

The District Attorney

The Public Defender

A presiding judge of the superior court (or his/her designee)

A representative from either the County Department of Social Services, Mental Health or Alcohol and Substance Abuse Programs

Under AB 109, the CCP was tasked with drafting a realignment plan for the County. The 2011-2012 plan received the necessary support of at least four of the five County Supervisors for approval as did the 2012-2013 plan. These plans include the distribution of the State’s AB 109 funding that is received by the County.

Staffing

The Sheriff’s Department is now dealing with a new type of jail inmate due to AB 109 realignment. At the same time, staff has been reduced at the jail and for patrol. Police departments throughout the County have also been reduced. The Probation Department is facing an expanded role in law enforcement yet this department has also suffered reductions to staff.

The District Attorney’s office has lost 25% of its annual budget since 2008. The number of attorneys in this department has been reduced by 30%. The Public Defender’s office has suffered similar reductions. Crimes are not being prosecuted/defended to the same extent as before these reductions were made.

The Superior Court's staff has been reduced by about 25%. Tracy's Superior Court was closed in 2011. The Lodi branch of the Superior Court had two courtrooms. The first courtroom closed in 2011 and the second was closed in March 2013. These court closures have caused backlogs in the remaining courtrooms. The Stockton Superior Court Building is outdated, in poor shape, and needs to be replaced. While the State has approved construction of a new courthouse in Stockton, funding has not yet been released.

The Stockton Police Department has suffered as much or more than any other law and justice agency in the County. The City filed for bankruptcy in June 2012. Its police force has been reduced by about 25%. Many officers are leaving Stockton to work in other communities where salaries and benefits are better and there is less risk of being laid off. The police force has been reduced to the extent that officers do not respond to service calls unless the crime is serious or is in progress.

Crime in Stockton

Along with the staffing issues cited above, violent crime in Stockton has increased. The year 2012 saw a record number of murders: 71. The risk of gold chain thefts was a major issue in the summer and fall of 2012. Comparing 2012 to the prior year, auto theft increased 49.3% and burglary was up by 6.8%.

Crime has risen in Stockton to the point that the city can be viewed as the *broken window*. The Broken Windows Theory was first introduced in 1982 by social scientists James Q. Wilson and George L. Kelling. The theory is that once you have a broken window in a building, the next thing you find is more broken windows. Broken windows are followed by more and more decline until the whole building is dilapidated. The theory also says that this decline could have been prevented by addressing the cause of the very first broken window. This syndrome is happening now in San Joaquin County with respect to crime. The *broken window* in our County is the City of Stockton. The violent crime Stockton is facing is also impacting other areas of the County and must be confronted.

The Stockton Police Department and the City of Stockton are taking actions to reduce crime. The City has been developing their Marshall Plan to address how the City will battle crime. One component of this plan is the reinstatement of Operation Ceasefire, a program that targets those individuals who commit the worst violence. This program was used by Stockton for five years beginning in 1998 and is again becoming operational as this report is being published. The Police Department has developed a Homicide Reduction Plan. They utilize social media (*Facebook*) to inform citizens of crime in the community and as a means to provide crime tips that help the department in its crime fighting efforts. The department has also established a non-profit foundation to obtain additional funds to support its' crime fighting efforts.

The Stockton Police Department has also been creative with its Chaplain program. This department has the largest Chaplain program in the nation with over 30 volunteer chaplains. The program has been so successful that the Chaplains are being used in the schools to replace the discontinued School Resource Officer program.

Issues

The Grand Jury has found that there are many challenging issues within the County law and justice system. Most of these issues are directly related to two factors: a multi-year reduction to budgets; and the implementation of AB 109. Given the combined impact of these two adverse realities, this report will focus on the following three issues.

Law and Justice Staffing
Overcrowding at the County Jail
Law Enforcement Leadership

Method of Investigation

The Grand Jury studied various aspects of the law enforcement and justice systems in the County. Interviews and site visits were conducted with representatives of police departments, the Sheriff's Department, Probation, the District Attorney's office and the San Joaquin County Superior Court. There were personal meetings with one or more representatives of every city's police department within the County as well as numerous meetings with officials from the Sheriff's Department. In addition, members of the Grand Jury participated in ride-alongs with each police department and the Sheriff's Department. The Grand Jury toured every detention facility in the County. Interviews were also conducted with management and staff of the Probation Department and the District Attorney's office. Proceedings of the Superior Court were observed and discussions were held with court staff.

The Grand Jury also attended over a dozen meetings during this investigation. A number of community meetings were attended where law enforcement and crime was the main topic. Members attended and/or watched recordings of city council meetings and meetings of the County Board of Supervisors. Numerous meetings of the Community Corrections Partnership were also attended by the Grand Jury.

The Grand Jury also researched crime in San Joaquin County and the law and justice system in general.

A complete listings of documents reviewed, web sites visited, site visits/interviews and meetings attended are included in the attached Appendices.

Discussion, Findings, and Recommendations

1.0 Law and Justice Staffing

Almost all categories of crime are high throughout the County; in some areas, crime is rising. The downturn of the economy decreased the funding for the law and justice system. The subsequent implementation of AB 109 made these problems even worse.

Law enforcement agencies have experienced significant staffing reductions over the last five years. The Manteca Police Department lost 12 officers in 2009, 15% of its total sworn staff. The Tracy Police Department reduced the number of its officers from a high of 95 to its current number of 85, a reduction of more than 10%. Between 2007 and 2011, the Stockton Police Department lost about 100 officers, or 25% of its total sworn staff.

The level of law enforcement staffing is often expressed as the number of officers per thousand residents. The Stockton Police Department currently has approximately 1.1 officers per thousand residents. A 2010 FBI study showed that, on average, there were 2.7 officers for every 1,000 people in U.S. cities of more than 250,000. The 2006 report *Preventing Violent Street Crime in Stockton, California*, by Anthony A. Braga, a Harvard professor of criminal justice, recommended that the Stockton Police Department should have 550 officers requiring the addition of more than 200 officers. It is understandable why almost everyone interviewed supported the need for *more boots on the ground*, the phrase commonly used for adding more officers.

Officer reductions have had a direct impact on services provided. Many locales eliminated programs such as community policing, school resource officers and/or some special/tactical enforcement units.

The Stockton Police Department has experienced its own unique problems. In addition to staffing reductions, the city filed for bankruptcy in June 2012. Salaries and benefits were reduced for all city employees. One of the consequences of these actions was a larger than normal number of officers resigning or retiring. Even though the department is recruiting aggressively, the number of police officers remains approximately 325. If the Stockton Police Department could reach 344 sworn officers, a federal grant would pay for 17 additional officers. Staffing was reduced so much and crime has increased so rapidly that the City requested help from the State. This resulted in the California Highway Patrol (CHP) dedicating 10 officers to assist Stockton policing efforts for at least four months in 2012 and into 2013.

In 2012, Stockton hired 75 officers. However, during the same year, 72 officers resigned or retired resulting in a net increase of only three officers. The overall effect was a major decrease in the average level of experience within the department.

The justice system has experienced its own staff reductions. In the last five years, the District Attorney's department has reduced its personnel by more than 30% resulting in a reduction of attorneys, investigators and clerical staff. The Public Defender's office has experienced similar reductions.

When staffing is reduced, it is common for an agency to consider increasing their efficiency so that fewer people can maintain the same level of service. In many cases, implementation of new technologies can help increase efficiency. These technologies often come with a high initial price but low on-going costs.

Examples of local law enforcement agencies using new and efficient technologies include:

- Escalon and Manteca have installed video cameras in patrol cars. Ripon has installed surveillance cameras at more than 75 locations and provides 24/7 monitoring by their dispatch staff.
- Ripon has installed a license plate reader camera so that the license plate number of every car that drives by the camera location is compared to a data base of license plates. When a stolen vehicle or other wanted vehicle is identified, police are notified and respond.
- Stockton uses texting and social media to communicate with their community and to receive crime tips.
- Stockton is field testing biometric devices that capture unique features (e.g., fingerprints, palm prints, facial images). This allows a technician in the field to gather information, electronically transmit it and within minutes receive data on the individual while still in the field.

Other technologies available for law enforcement that could benefit agencies in the County:

- Predictive analytics software takes information from all crimes committed, analyzes the data and then is able to predict where future crimes may be committed.
- The ShotSpotter™ system is able to identify the location of gunfire and then alert the nearest agency to that location in order to provide a quick response.
- Smart phones with special apps are now available for officers' use in the field and for better communication between the department and the public.

With reduced staffing, law enforcement agencies need help from the public. One of the requests frequently heard by the Grand Jury in meetings and during interviews was to have the public report all crimes. It is believed by law enforcement officials that many property crimes are not being reported. Having complete crime data is critical for current analytical software to effectively target crime.

Findings

F 1.1 The staffing of all law and justice agencies in the County has been reduced increasing the threat to the safety of the citizens and their property.

F 1.2 The Stockton Police Department has maintained an aggressive recruitment program but has not been able to increase its staffing due to the number of officers leaving the department.

F 1.3 Some lower-level crimes are not being prosecuted due to staffing reductions within the District Attorney and Public Defender offices allowing criminals to remain on the streets without consequences for their actions.

F 1.4 Continued and increased use of current technologies would make law enforcement agencies more efficient and offset some of the decreased staffing.

F 1.5 When the public does not report a crime, law enforcement does not have complete statistics that are necessary for predictive policing.

Recommendations

R 1.1.1 The Board of Supervisors, before September 1, 2013, adopt a policy that states it is a priority of the County to increase staffing for law enforcement, including patrol and probation.

R 1.1.2 Each City Council, before September 1, 2013, adopt a policy that states it is a priority of the City to increase law enforcement staffing.

R 1.2 The Stockton City Council, before December 31, 2013, identify provisions that promote the retention of law enforcement staff and approve a plan for the implementation of the retention provisions identified.

R 1.3 The County Board of Supervisors, before December 31, 2013, approve a 2013-14 budget or budget amendment that increases staffing for the Office of the District Attorney and the Public Defender Office to adequately prosecute/defend all individuals arrested for violent crime.

R 1.4 The Sheriff's Department and each city's police department review their current use of crime prevention technologies and develop a plan to implement new technologies that could help increase the efficiency of their agencies.

R 1.5 The Public Information Officer for San Joaquin County, by September 1, 2013, coordinate efforts with local law enforcement agencies to have local print, radio, TV and cable media outlets use Public Service Announcements (PSAs) to inform the public to report all crimes.

2.0 County Jail Capacity

Law enforcement staff often state the ongoing requirement for keeping *one empty bed* available at the jail (so that the next person arrested can be detained). The Grand Jury found the inmate population at the San Joaquin County Jail often exceeds its capacity. Without this *one empty bed*, those arrested are not always being detained; in fact, some detainees are released early. The habitual lack of bed space prevents officers from incarcerating individuals who have warrants for failure to appear in court. This limited bed space problem has created an arrest-incarceration system that borders on *catch-and-release*.

It has also changed the rules for the criminal element; they realize that they usually will not serve full sentences. And they could realistically be released early.

Prisons and jails in California have struggled with overcrowding. As a result of a law suit regarding jail overcrowding, the federal court ruled that jail and prison populations must be reduced. Locally, a Superior Court Consent Decree established what is known as the court cap at the County Jail.

The San Joaquin County Jail (jail) has 1,411 beds between the housing units of the jail and the honor farm. Due to budget reductions in 2010, staffing was reduced by 33 correctional officers. At this time, the jail is staffed to supervise 1,252 inmates. When the inmate population exceeds 1,252 inmates, additional correctional officers must be brought in and paid overtime to staff the jail and supervise inmates assigned to these additional beds.

The jail has been overcrowded for many years. In response to this issue, the Sheriff's Department submitted a proposal in March 2008 requesting funds for the construction of a 1,280 bed expansion of the current jail. In 2008, the State of California awarded San Joaquin County \$80 million in construction funds for the expansion. The County also authorized \$25 million of its own money and \$10.5 million of in-kind matching contributions for a total project budget of \$115.5 million. A design team was created in January 2009 to plan and coordinate the construction of the expansion. To date, approximately \$9 million has been spent for architectural and engineering design work but construction plans have not been produced and construction approvals have not been received.

Even though the County has funds for the construction of the jail expansion, there is no provision for the additional funds necessary to staff the expansion. In April 2012, the County's Chief Administrative Officer (CAO) estimated the annual staffing cost for the completed 1,280 bed expansion to be about \$55 million for the Sheriff's Department plus an additional \$14 million for health care, plant engineering and probation. These amounts do not include a factor for inflation and there is no new revenue to cover these expenses. Quoting from the CAO's report "Should any phase of the expansion occur without new revenue, several departments would have to be totally eliminated and, in effect, render County services unmanageable."

The Grand Jury reviewed an internal study provided by the Sheriff's Department that focused on options for staffing the jail expansion. However, all options studied only shifted inmates and staff from current jail buildings into the proposed expansion with no net increase of beds being used. The Sheriff's Department has not made a presentation on jail expansion to the Board of Supervisors since February 14, 2012. Also, the Board of Supervisors has not publicly addressed the jail expansion since the CAO's cost analysis study was presented on April 24, 2012.

At this time, ground has not been broken for the jail expansion even though funding was reserved five years ago. The Grand Jury was told the jail expansion project will not move forward until the County Board of Supervisors approves a staffing plan for the expansion. Even after receiving Board approval, it will be at least two to three years before construction would be finished and the jail beds could be used.

The Grand Jury reviewed the presentation “*Jail Expansion & Infrastructure Construction Project*” given by the County Sheriff on February 14, 2012, to the County Board of Supervisors. The Sheriff’s Department reported on AB 109’s impact on the jail in the early stages of its implementation. There were 549 AB 109 inmates detained at the County Jail from October 2011 through January 2012. As of January 31, 2012, 286 AB 109 inmates were in custody and 263 had been released. Of those released, 128 (48.7%) returned to custody for committing a new crime or parole/probation violation. In other words, almost half of those released had been detained, released, and then returned to jail, all within four months. The reasons for the return to custody, as of January 31, 2012, are shown in Table 1.

REASON	NUMBER	% OF TOTAL REARRESTED	% OF TOTAL RELEASED
Parole Violation	65	50.8	24.7
Probation Violation	36	28.1	13.9
Property Crimes	7	5.5	2.7
Narcotics	4	3.1	1.5
Weapons	3	2.3	1.1
Violence	2	1.6	.08
Other	11	8.6	4.2
TOTAL	128	100.0	48.7

Table 1

When the inmate population exceeds the court cap, inmates must be released early. A Superior Court judge is assigned to monitor jail inmate capacity data and to determine which inmates should be released. The release of defendants is based on the charges they currently face. When considering which offenders should be released, the decision is based on the length of their sentence and what portion has been served. In 2012, over 2,000 offenders were released before the end of their sentences and many defendants (those individuals not yet sentenced but awaiting a court date) were released from the jail while still awaiting a trial.

The Grand Jury heard from officials that an expansion of 1,280 beds is not the only option. Table 2 lists the options known to the Grand Jury for additional bed space and for alternatives to incarceration. It is recognized that many of the alternatives to incarceration do not directly decrease the need for jail space. The final solution to reach the goal of always having *one empty bed* could be a combination of some or all of these options.

OPTIONS	DESCRIPTION	ISSUES	
INCARCERATION	Jail expansion	1,280 bed expansion adjacent to current jail; could be downsized by not building all 10 housing units	Funding for staff has not been approved; 1,280 beds may be more than necessary if alternatives to incarceration are used
	Community Corrections Center	Inmates are held in a non-secure facility; provides skills and resources to help reentry into society	Study of this option has just begun; would require funding to build/modify a facility as well as for staffing
	Honor Farm Conversion	Portions of the Honor Farm are not being used; requires extensive modifications to increase security	Honor Farm facility was designed for minimum security housing; conversion would require significant funding
	Send inmates to other jails that have capacity	Other counties/states have jails with excess capacity; inmates can be sent to these jails and the county would pay for the custody	Cost of other facilities may be greater than the County's cost; may be difficult to meet restrictive conditions and follow extensive procedures
ALTERNATIVES to INCARCERATION	Pretrial assessment	Use validated tool based on criminal history, prior failures to appear, alcohol use, and other criteria to determine whether to release or incarcerate	County is just starting to explore this option; funding is needed for staffing and operations
	Home Detention	Monitor is worn on leg; allows defendant/offender to live at home	GPS device can be removed or rendered ineffective by defendant/offender
	Day Reporting Center	Offender lives at home and periodically checks in with probation staff; may include substance abuse testing	Must have staff to seek out those who fail to report

Table 2

Findings

F2.1 The savings from eliminating 33 correctional officer positions have been partially negated by overtime paid to officers when there are more than 1,252 inmates and therefore does not provide the intended savings.

F2.2 County jail inmates who are being released due to jail overcrowding are then able to commit crimes when they otherwise would have been incarcerated, which is increasing the crime problem in the County.

Recommendations

R2.1 The County Board of Supervisors, before November 1, 2013, approve an increase to the staffing level of correctional officers to fully staff the County Jail including the Honor Farm.

R2.2 The San Joaquin County Board of Supervisors, by December 31, 2013, approve an increase of jail beds (whether at the county jail, a new Community Corrections Center or other options) as well as the necessary associated staffing.

3.0 Law Enforcement Leadership

After extensive study and interviews, the Grand Jury discovered law enforcement agencies within the County typically work independently. Examples of interagency task forces for specific issues and some cooperative efforts were found but these were the exceptions. It is the norm that law enforcement agencies focus their efforts within their jurisdiction.

The law enforcement leaders of the County attend periodic meetings where common issues are discussed. The CCP meetings provide a chance for those interested in law and justice to share and discuss a wide range of topics. There is also a monthly meeting hosted by the Sheriff where city police chiefs from throughout the county are invited to attend. This meeting allows the law enforcement leaders to interact within a group that is much smaller and more focused than the CCP.

The Grand Jury observed examples of law enforcement agencies working together. Multiagency events which focus on a particular crime issue are conducted periodically. Representatives of the Grand Jury observed Operation Safe Holidays that focused on parole/probation searches and saturation/surveillance operations. This two-day event in December 2012, was coordinated by the Sheriff's Department and included representatives from city police departments, probation, CDCR, ICE, CHP and other agencies.

There are also a number of multiagency task forces in San Joaquin County. These groups are on-going and target a specific law enforcement issue. The County and each City decide whether they assign one or more officers to each task force.

The Grand Jury contacted each agency to determine which multiagency task forces they supported with staff. Table 3 shows the results of this survey. The CCP Task Force is a new effort to deal with AB 109 offenders.

AGENCY	MULTIAGENCY TASK FORCE			
	Gangs	Narcotics	Auto Theft	CCP Task Force
Escalon	None*			
Lathrop	Services provided by Sheriff's Department			
Lodi				
Manteca				
Ripon	None*			
Sheriff				
Stockton				
Tracy				

Table 3 * Escalon and Ripon police forces are so small that it is difficult to commit staff.

The Grand Jury also surveyed law enforcement agencies to identify the special unit categories within each agency. Table 4 shows the results of this survey.

AGENCY	SPECIAL UNITS							
	Crisis Negotiations	Explosive Ordnance Disposal	Gangs	Mobile Command Post	Narcotics	Riot	Special Enforcement Group*	SWAT
Escalon	None							
Lathrop	Services provided by Sheriff's Department							
Lodi								
Manteca								
Ripon								
Sheriff								
Stockton								
Tracy								

Table 4 * Patrol groups who focus on high crime areas.

After studying Table 3 and Table 4, the Grand Jury found areas of duplication of services. The most noticeable examples are:

Four cities have their own gang unit and there is a multiagency task force with representatives from the same four cities.

Four cities have their own narcotics unit and there is a multiagency task force with representatives from only Stockton and the Sheriff's Department.

Six agencies have their own SWAT teams, units that are used infrequently; each agency must provide extensive training for its SWAT team which takes the officers away from their other duties and often require overtime pay.

Four cities and the Sheriff's Department each have special enforcement groups; while there may be some communication between the groups, they largely function independently even though they are addressing common problems.

Similar issues can be found with the explosives units, mobile command posts and riot units. The duplication of services and the specialized training of officers for these services create higher costs to serve the residents and businesses of the County.

In addition to the special units, there are similar concerns for other common functions of each law enforcement agency. Each law enforcement agency has its own property room. Each agency (except for Escalon) has its own dispatch center. Each agency has its own investigation technicians (or staff trained to conduct crime scene investigations). Most agencies have their own detective group. It could be more efficient if some or all of these functions were coordinated throughout the County.

The number, differences and variety of equipment used can also cause inefficiencies. This is most noticeable in computer systems. Different agencies use different software programs. These computer programs do not easily share information. Each agency operates its own computer network creating additional inefficiencies. Therefore, when a police officer enters data into his/her agency's program, the same data may need to be re-entered into the County's system when the defendant is booked into the jail.

The artificial boundaries separating the cities from the County also create inefficiencies. The Sheriff's Department serves the unincorporated areas of the County. Within their service area, the seven cities in the County have their own police departments. As the Sheriff Deputies patrol their area, they sometimes travel through a city jurisdiction to reach unincorporated areas. The Sheriff's Department serves pockets of unincorporated areas within the Stockton city limits. Therefore, Stockton officers often drive through unincorporated areas during their regular patrols and the Sheriff Deputies drive through Stockton to reach the unincorporated pockets. Service would be more efficient if these pockets were eliminated.

These jurisdictional boundaries mean nothing to those who commit crimes. A prime example of this is the fact that three of the four murders in Tracy in 2012 were committed by gang members from Stockton. Since crime is a county-wide issue, county-wide efforts are needed. At this time, there is no mechanism to coordinate county-wide law enforcement to best meet the specific needs of a community.

Examples of multiagency cooperation and integration exist in the region and throughout the nation. A small scale example of cooperation is Ripon hosting dispatch services for Escalon. On a larger scale, the Sheriff's Department has contracts to provide law enforcement for the City of Lathrop and the Mountain House Community Services District. *The Manteca Bulletin* reported on February 4, 2013, that Manteca and Lathrop are in discussions to form a single, joint law enforcement agency.

Large scale examples of cooperative efforts can be found in northern California. The Stanislaus County Sheriff's Department has contracts to provide policing in five of its nine cities, reducing by half the number of law enforcement agencies in the county. In San Mateo County, the Sheriff's Department provides law enforcement for the Cities of San Carlos and Millbrae. It has been reported that this joint effort is saving the cities millions of dollars each year.

A sheriff's office can merge with all the city police departments within the county to form what is known as a *metro police agency*. The city of Las Vegas and Clark County, Nevada, union is a well-known example. In 1973, the Las Vegas Metropolitan Police Department was formed by merging the Las Vegas Police Department with the Clark County Sheriff's Department. A 1999 audit by an outside firm commended the department for having fewer managers and supervisors than are typically found in large police agencies.

Findings

F3.1 The duplication of special units, specialized training and police functions (e.g., property room, dispatch, investigation technicians) cause inefficient use of limited resources.

F3.2 There are examples of cooperation between different agencies in the County but each agency still operates autonomously most of the time.

Recommendations

R3 The Board of Supervisors and the City Councils of Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton and Tracy, before September 1, 2013, each appoint two representatives, one to represent law enforcement and one to represent the governing body or management, to form an *ad hoc* committee. The committee's purpose is to conduct a study on how to increase countywide efficiency of law enforcement agencies by taking a regional approach to some or all of their services. A preliminary report is to be released before December 31, 2013, of actions already taken to increase efficiency and additional actions that will be taken between January 2014 and June 2015.

Conclusion

Crime in San Joaquin County has put our collective backs against the wall. It is the ever present cancer in our public body and threatens our community's health. Crime works against recovery from the challenges of the economic downturn, adversely impacts Stockton's bankruptcy, creates negative perceptions and diminishes scarce public resources. The Grand Jury tackled this high priority, complex, multi-faceted and difficult issue as an investigation in an effort to showcase the challenges and contribute in a meaningful way to the community dialogue.

Investment in law enforcement staffing, expanded jail capacity and inter-agency cooperation are those areas which make up but three of many key and interrelated pieces of the puzzle for a comprehensive solution. The recommendations are put forward with the intention of supporting an immediate change as well as creating a foundation for long-term improvements. In addition, there are many good ideas and programs already under consideration including Stockton's Marshall Plan and the Community Corrections Partnership's study of community corrections centers. No recommendation the Grand Jury puts forth should be construed as replacing, contradicting or opposing either of these or any other initiative under development. Instead, they are conceived to be complementary and offered as potential ideas to integrate with other approaches to address the crime issue. Finally, the economic health of our communities requires a balance of insuring a safe environment for our residents, while at the same time being fiscally responsible. The responsibility of our public officials, elected and appointed alike, is to manage that balance for both our personal and economic wellbeing.

Those working in the law and justice system must continue to work for solutions. Most important of all, the citizens of our County must stay concerned and work with our leaders to make the streets safe for everyone. The Grand Jury's recommendations, if properly interpreted and effectively implemented, will help to support the restoration of our hope for San Joaquin County to become a safe and secure place to live, now and into the future.

Disclaimer

Grand Jury reports are based on documentary evidence and the testimony of sworn or admonished witnesses, not on conjecture or opinion. However, the Grand Jury is precluded by law from disclosing such evidence except upon specific approval of the Presiding Judge of the Superior Court, or another judge appointed by the Presiding Judge (Penal Code Section 911, 924.1 (a) and 929). Similarly, the Grand Jury is precluded by law from disclosing the identity of witnesses except upon an order of the court for narrowly defined purposes (Penal Code Sections 924.2 and 929).

Acknowledgement

The Grand Jury wishes to express its appreciation for the professional efforts made by the many individuals working in the law and justice system. As the Grand Jury rode along with officers during their patrols, toured the County Jail, and talked with our law and justice leaders, the Grand Jury was impressed by the work they were accomplishing.

Response Requirements

California Penal Code Sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of the San Joaquin County Superior Court. The San Joaquin County Board of Supervisors and the various City Councils, where applicable, shall report to the Presiding Judge of the San Joaquin County Superior Court within 90 days. The San Joaquin County Sheriff, where applicable, shall report to the Presiding Judge of the San Joaquin County Superior Court within 60 days.

Agency/Elected Official:	Required to Respond to the Following:	
	Findings	Recommendations
Escalon City Council	F1.1, F1.4 F3.1, F3.2	R1.1.2, R1.4 R3
Lathrop City Council	F1.1, F1.4 F3.1, F3.2	R1.1.2, R1.4 R3
Lodi City Council	F1.1, F1.4 F3.1, F3.2	R1.1.2, R1.4 R3
Manteca City Council	F1.1, F1.4 F3.1, F3.2	R1.1.2, R1.4 R3
Ripon City Council	F1.1, F1.4 F3.1, F3.2	R1.1.2, R1.4 R3
San Joaquin County Board of Supervisors	F1.1, F1.3, F1.5 F2.1, F2.2 F3.1, F3.2	R1.1.1, R1.3, R1.5 R2.1, R2.2 R3
San Joaquin County Sheriff-Coroner-Public Administrator	F1.4 F2.1, F2.2	R1.4
Stockton City Council	F1.1, F1.2, F1.4 F3.1, F3.2	R1.1.2, R1.2, R1.4 R3
Tracy City Council	F1.1, F1.4 F3.1, F3.2	R1.1.2, R1.4 R3

Mail or hand-deliver a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
222 East Weber Ave., Room 303
Stockton, CA 95202

Also please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at grandjury@sjcourts.org

Appendices

- A. Web Sites Visited
- B. Site Visits/Interviews
- C. Community Meetings Attended

Appendix A

Web Sites Visited

Bureau of Alcohol, Tobacco, Firearms, and Explosives (Federal). <http://www.atf.gov>.

Department of Corrections and Rehabilitation (California). <http://www.cdcr.ca.gov>.

Department of Homeland Security (Federal). <http://www.dhs.gov>.

Escalon Police Department. <http://cityofescalon.org/departments/police>.

Federal Bureau of Investigation. <http://www.fbi.gov>.

Highway Patrol (California). <http://www.chp.ca.gov>.

Lathrop Police Department. <http://www.ci.lathrop.ca.us/lpd>.

Lodi Police Department. <http://www.lohi.gov/police>.

Manteca Police Department. <http://www.ci.manteca.ca.us/police>.

National Institute of Justice. <http://www.nij.gov/welcome>.

Ripon Police Department. <http://www.riponpd.org>.

Stockton Police Department. <http://www.stocktongov.com/government/departments/police>.

Tracy Police Department. <http://www.ci.tracy.ca.us>.

San Joaquin County Sheriff Department. <http://www.co.san-joaquin.ca.us/sheriff>.

San Joaquin County District Attorney. <http://www.sjgov.org/da>.

San Joaquin County Probation Department. <http://www.sjgov.org/probation>.

San Joaquin County Superior Court. <http://www.stocktoncourt.org>.

San Joaquin County Board of Supervisors. <http://www.sjgov.org/board>.

San Joaquin County Public Defender's Office. <http://www.sjgov.org/pubdefender>.

U.S. Marshals Service. <http://www.justice.gov/marshals>.

Appendix B

Site Visits/Interviews

Deuel Vocational Institution, CDCR. Tracy, CA

Escalon Police Department

Lodi Police Department

Manteca Police Department

Northern California Youth Center, California Department of Juvenile Justice. Stockton, CA

Ripon Police Department

San Joaquin County Jail. French Camp, CA

San Joaquin County Juvenile Probation. French Camp, CA

San Joaquin County District Attorney's Offices. Stockton, CA

San Joaquin County Sheriff Office. French Camp, CA

San Joaquin Superior Court. Manteca, CA

San Joaquin Superior Court. Stockton, CA

Stockton Police Department

Tracy Police Department

Appendix C

Community Meetings Attended

Anti-crime Event. Held at Victory Park, Stockton, CA. (September 27, 2012)

City of Stockton Marshal Plan Symposium. Held at Stockton Progressive Church, Stockton, CA. (February 8, 2013)

City of Stockton Operation Ceasefire Presentation, held at Stockton Progressive Church, Stockton, CA. (November 14, 2012)

Community Corrections Partnership. Held in Stockton, CA. (Various Dates)

San Joaquin County Board of Supervisors. Held in Stockton, CA. (Various Dates)

Stockton City Council. Held in Stockton, CA. (Various Dates)

Stockton in Crisis: Searching for Solutions. Held at University of the Pacific, Stockton, CA. (September 27, 2012)

Town Hall Forum Addressing Violence in Our Community, held at University of the Pacific, Stockton, CA. (November 15, 2012)

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Community Corrections Partnership Executive Committee. (September 25, 2012). *San Joaquin County Public Safety Realignment Phase 2 Implementation Plan*.

Council of State Government Justice Center. (2013). *The Impact of Probation and Parole Populations on Arrests in Four California Cities*.

Deis, Bob. (January 31, 2012). *Marshall Plan on Public Safety*. Stockton, CA.

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San Joaquin Community Data Co-Op. (2012). *AB109: Public Safety Realignment in San Joaquin County – A Preliminary Evaluation Report: The Situation, Response, and Impact*. Stockton, CA.

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August 13, 2013

Presiding Judge
San Joaquin Superior Court
222 East Weber Avenue
Stockton, CA 95202

CITY OF STOCKTON RESPONSE
2012-13 CASE NO. 1112 - MOSQUITO AND VECTOR CONTROL DISTRICT BOARD
IGNORES THE PEOPLES' RIGHT TO BE INFORMED

In accordance with Sections 933 and 933.05 of the California Penal Code, the City Council of the City of Stockton responds to the Grand Jury Report on the above-referenced case as follows:

FINDINGS

F 4.1 Membership on the District Board is seen as a family right and obligation passed through generations, or as a pathway for political advancement.

***Response:** The respondent is not in a position to agree or disagree with this finding. This finding is a subjective statement. The City of Stockton is not in a position to ascribe the perception or motive of the appointive bodies or members appointed to the District. Appointments that have been made by the City of Stockton have been made in accordance with our own internal policies and process as well as in compliance with District policies and practices.*

F 4.2 Long terms on the District Board may lead to complacency in reviewing District financial conditions and a clear understanding of issues brought before the Board for consideration.

***Response:** The respondent partially agrees with this finding. The current City Council has placed high priority on the values of transparency, accountability and responsible governance. This has been well demonstrated by the reform efforts of Council and staff in addressing issues at the City that have long been ignored or unrecognized. The*

current Council is committed to the thorough review of all past practices, including appointments to boards, commissions and districts. With this commitment in mind, there is a balance between allowing lengthy terms of service that can lead to complacency and terms that are too brief and don't allow for the development of expertise and understanding of detailed subject matter. There is more than one solution to assuring that appointed officials remain diligent and responsive in their roles. The City Council is committed to holding our respective appointees accountable for their actions and attention to their duties.

F 5.1 Issues regarding non-transparent functioning and actions of the District Trustees bring into question the need for the District Board as presently appointed by the Cities and the County Board of Supervisors.

Response: *The respondent is not in a position to agree or disagree with this finding. There is more than one solution to addressing concerns with transparency and accountability of District Trustees. This will require further study after conferring with other cities and the County. If this discussion is raised within that forum, the Council will consider the analysis and options presented.*

RECOMMENDATIONS:

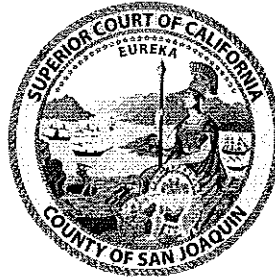
R 4.1 No later than November 1, 2013, the County Board of Supervisors and the City Council of each city in the County petition the appropriate agencies and/or the State legislature to establish term limits of two consecutive four-year terms for District Board Trustees.

Response: *The respondent is not in a position to agree or disagree with this recommendation. This will require further study after conferring with other cities and the County.*

BOB DEIS
CITY MANAGER

BD:CC

San Joaquin County Grand Jury



RECEIVED

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CITY MANAGER
CITY OF STOCKTON

District Board Ignores the Peoples' Right to be Informed 2012-2013 Case No. 1112

Summary

In 1953 the California State Legislature recognized the public's right to know what actions legislative bodies were voting on before the actual vote took place. The Legislature enacted the Ralph M. Brown Act (Government Code Section 54950 *et seq.*) which, among other provisions, required legislative bodies to post agendas not less than 72 hours before a meeting with descriptions of all proposed actions in sufficient detail so that the public could understand what was being voted on. This requirement applies to all local governments in the State, including all special districts.

When a legislative body circumvents the requirements of the Brown Act, when actions are taken that are not clearly explained to the public, and when legislative members themselves do not understand what they are voting on, the public's trust of honest governance begins to collapse. By observation, review of documents and sworn testimony the actions of the San Joaquin County Mosquito and Vector Control District (District) and its Board of Trustees (District Board) bring into question its commitment to transparency and compliance with this State law. The 2012-2013 San Joaquin County Grand Jury (Grand Jury) suggests that the San Joaquin County Board of Supervisors (Board of Supervisors) exercise all pertinent authority to impose requirements upon the District to permit the public greater access to the District's meeting agendas and reports. In addition, the appropriate authorizing bodies should consider adopting term limits to ensure that fresh ideas are brought before the District Board. The Grand Jury also has concerns about whether having a separate district with a separate board as the legislative body is the most effective structure for the present and future needs of the County.

Glossary

Brown Act

The Ralph M. Brown Act (Government Code Sections 54950 et seq.) regulating the conduct of public meetings and related public information.

et seq.

To include sections that immediately follow the identified section and pertaining to the same topic.

LAFCO

Local Agency Formation Commission; a county-wide government agency created pursuant to State law for the purpose of reviewing and approving timely changes in local government boundaries and establishing special districts.

Serial Meeting

A series of communications, each of which involves less than a quorum of the legislative body, but which taken as a whole, involve a majority of the body's members, for the purpose of developing a concurrence as to action to be taken. Prohibited under the Brown Act.

Background

All California public entities are required to conduct their business in a transparent manner at meetings open to the general public. These requirements under the Ralph M. Brown Act (Brown Act) have been in existence since 1953. The San Joaquin County Mosquito and Vector Control District (the District) is a public entity subject to the Brown Act. Among the mandates under the Brown Act, governing bodies are required to publish their agenda at least 72 hours before a meeting along with their proposed agenda actions containing sufficient information for the public to understand the topic being considered and the proposed action. It also requires the public to be permitted to speak on any agenda item before action is taken. Such advance notice and clarity were not provided to the District's constituents regarding health insurance benefits for the District Trustees.

The District offers health insurance benefits to its employees, which include medical, dental and vision coverage for the employee, the employee plus one or the employee and family. The District pays for the costs of the monthly insurance premium up to a maximum fixed amount. For 2013, the maximum benefit District payments are:

Medical - \$1,599.36
 Dental - \$108.32
 Vision - \$21.92

Any cost for health insurance benefits above that dollar amount is paid for by the employee.

On March 19, 2009, the District adopted a policy to permit members of the District's Board of Trustees (Trustees) to participate in the District's health care benefit plans in the same manner as other employees of the District. Currently, six of the 11 Trustees participate in the health insurance plans. Two Trustees participate in only dental and vision coverage at a Trustee plus one rate. The monthly District cost for each is \$82.13 with the Trustee paying \$32.56 out-of-pocket. One Trustee is enrolled in medical, dental and vision coverage for only the Trustee option. The District's monthly cost is \$731.00, with no Trustee out-of-pocket cost. One Trustee participates in medical, dental and vision coverage for the Trustee plus one, with a monthly District cost of \$1,312.41 and \$136.34 paid out-of-pocket. One Trustee has full family coverage for medical, dental and vision with a monthly District cost of \$1,729.60, and out-of-pocket expenses of \$499.52. The sixth Trustee participates in a family medical program with a District cost of \$1,599.36 and no out-of-pocket cost. The total District contribution for all Trustee health insurance benefits is \$5,536.63 a month, or \$66,439.56 per year.

After the public disclosure (in July 2012) regarding the details of the March 2009 action, the Trustees placed an agenda item before them on November 20, 2012, to reaffirm the previous action to permit Trustees to participate in the health benefit plan. The matter was continued at that time to permit a three-member committee composed of a Trustee, the District's general manager and the District's legal counsel to review the proposal and provide options for a future Trustee action. No action was taken at the regular December 18, 2012 meeting due to discussion about the District's budget. On January 15, 2013, the matter appeared on the District's agenda as Item No. 6, "*Review of Current Trustee Health Insurance Plan*" and was adopted by a unanimous vote of the Trustees.

After a review of State laws, the Grand Jury found no evidence that the District Board's action to make health insurance benefits available to Trustees violated any law. However, while investigating the two complaints received, it found other significant issues related to the District Board's legislative actions which warranted further investigation.

Issues

The 2012-2013 Grand Jury received two complaints from a citizen related to the San Joaquin County Mosquito and Vector Control District Board of Trustees. One related to a discrepancy in the Trustee's compensation listed on the District's Fact Sheet provided to the San Joaquin County Board of Supervisors (and made available to the public). The Fact Sheet did not list the health insurance benefits available to the Trustees.

The second complaint alleged there was a possibility that illegal serial meetings took place between Trustees and District management prior to the January 15, 2013 District Board meeting, which would be a violation of the Brown Act. This complaint was based on an allegation, as stated by the complainant, that the Trustee Board Chairman began the discussion on the health insurance agenda item by stating "*he was certain of the Board's consensus on this issue.*"

The Grand Jury investigated the first complaint and found that no violation of the California Government Code occurred. The District amended its Fact Sheet to include the Trustees' participation in the employee health insurance plan.

The Grand Jury investigated the second complaint; after reviewing numerous sworn testimony, District documents and e-mails, it found no evidence to substantiate the claim of Trustees or District employees engaging in serial meetings. This complaint was determined by the Grand Jury to be unsubstantiated.

However, the Grand Jury found three general areas of concern. First, there were examples of violations of the Brown Act regarding the manner in which the District Board conducted its public business. Second, while not a violation of any State law or regulation, the Grand Jury found that Trustees lacked a basic understanding of the District's finances or the specifics of what they were voting on. The third area of concern raised during the investigation was the appointment of Trustees and the sense of entitlement to the position by some of the Trustees.

This Grand Jury investigation was structured to focus on five specific issues:

1. Lack of transparency and compliance with the Brown Act at District Board meetings
2. Lack of understanding about action related to health insurance benefits
3. Trustees' knowledge of District finances
4. Appointment of Trustees to the District Board
5. The best governance structure of the District Board to serve the public

Method of Investigation

The Grand Jury investigated the complaints and the subsequent expansion of scope through the following:

Materials Reviewed

Citizen complaints and accompanying documentation

Applicable California Government Code

San Joaquin County Mosquito and Vector Control District website

San Joaquin County Mosquito and Vector Control District Fact Sheet

San Joaquin County Mosquito and Vector Control District Board of Trustee meeting agendas and informational packets.

Financial information provided by the San Joaquin County Mosquito and Vector Control District Board

Various e-mails and letters by and between District Trustees, management and legal counsel State Controller's website related to mosquito and vector control districts' financial reporting

Interviews Conducted

Complainant

Nine of 11 Trustees of the San Joaquin County Mosquito and Vector Control District
Senior management of the San Joaquin County Mosquito and Vector Control District

Sites Visited

Meetings of the San Joaquin County Mosquito and Vector Control District Board of Trustees

Discussion, Findings and Recommendations

1.0 Lack of Transparency and Compliance with the Brown Act at District Board Meetings

District Trustees are charged with oversight of the San Joaquin County Mosquito and Vector Control District's operations in the interest of the public good. They hold monthly District Board meetings to conduct business related to the District's operations in protecting the public from harm caused by mosquitos and other vermin, in a manner that is comprehensive in nature and without consideration of city boundaries. The Grand Jury recognizes the good work performed by District employees in fulfillment of this obligation, its role in educating the public about insects and vector dangers and its programs to protect the public's health. However, based on sworn testimony, review of documentations, and attendance at Board meetings, the Grand Jury is concerned about the Trustees' procedures that limit the public's ability to know about District-related issues being considered and acted upon.

The Brown Act contains very specific requirements for all public legislative bodies, such as this Board of Trustees, relating to how their meetings are to be publicly noticed, how agendas are to be prepared and how the public is to be accommodated during the meeting. Government Code Section 54954.2(a) (1) states in part *"...the local agency or its designee, shall post an agenda containing a brief general description of each item of business to be transacted or discussed..."* The purpose of this requirement is to allow the public to have advance notice of what business is before the Board with enough information for the public to understand what the Board will be discussing and what the proposed action will be.

The March 19, 2009 District Board agenda contained the following item *“District-sponsored Health and Welfare Plan; Resolution 08/09-XX, authorizing eligible trustees to participate in District sponsored health and welfare plans.”* For the January 15, 2013 Board meeting, the agenda item was listed as *“Review of Current Trustee Health Insurance Plan.”* While the 2009 meeting agenda description could loosely be interpreted as meeting the Brown Act requirement for a description, the January 2013 meeting description failed to meet the legal requirements. The action of the Trustees during the meeting was to discuss not the Plan itself, but rather the Trustees’ participation in the plan. If the agenda item was described as only for the purpose to review the health insurance plan, the District Board would be prohibited from taking any action on the plan since the description gave no indication that an approval action would occur.

The Brown Act very clearly promotes opportunities for the public to engage in public meetings with the ability to comment on any item on the agenda, and on any other issue within the jurisdiction of the governing body. That opportunity must be free from the perception of fear or intimidation and without restriction. Any requirement for a member of the public to identify themselves must be voluntary. Government Code Section 54953.3 states in part *“...If an attendance list, register, questionnaire, or other similar document is posted at or near the entrance to the room where the meeting is to be held...it shall state clearly that the signing, registering, or completion of the document is voluntary.”* At meetings attended by members of the Grand Jury, members were required to sign in on a form presented by a District employee. There was no indication on the sign-in sheet or on any other printed material or website that providing one’s name and affiliation was voluntary.

In order for the public to be informed about the activity of the District and its Board, it must have access to accurate and relevant information. Related agenda material must be available in a timely manner such that the public can form an informed opinion to support meaningful discussion on matters listed on the agenda. Government Code Section 54957.5 states in part *“... agenda of public meetings and any other writings, when distributed to all, or a majority of all, of the members of a legislative body of a local agency by any person in connection with a matter subject to discussion of consideration at a public meeting of the body, are public records under the California Public Records Act.”* No copies of the materials provided to Trustees for their meetings are available for the public’s review prior to or at the time of the meeting. At the February 19, 2013 meeting of the District Board, a member of the Grand Jury requested a copy of the agenda materials provided to the Trustees. The member was advised by a District employee that approval had to be obtained from the President of the Board prior to it being available to the member of the public. Access was denied to the public member until after the Board meeting had concluded.

Findings

F1.1 The Board of Trustees failed to comply with the Government Code Section 54954.2(a) (1) by providing an inadequate description of agenda items proposed for discussion and action at a public meeting. Specifically, it violated the Brown Act at its January 15, 2013 District Board meeting by having an inadequate description of Item No. 6 *Review of Current Trustee Health Insurance Plan*, under consideration and the proposed action to be taken by the Board.

F1.2 The District Board violated the requirements of California Government Code Section 54953.3 by failing to have clearly indicated on its sign-in sheet that such a requirement was a voluntary action for the public and that no adverse impact would result from failing to sign.

F1.3 The District Board violated Government Code Section 54957.5 by failing to have the agenda materials provided to Trustees available to the public at the same time as delivered to the Trustees. It also placed restrictions on the public's access to the materials before and during Trustee meetings.

F1.4 At the time this investigation started, the only information on the District's website was the current meeting agenda. Information about prior meeting agendas, agenda background materials and meeting minutes was not accessible on the website. This information has subsequently been added to the District's website.

Recommendations

R1.1.1 As a result of its violation of the Government Code 54954.2(a) (1), the Board of Trustee immediately rescind its action on Item No. 6, *Review of Current Trustee Health Insurance Plan* of the January 15, 2013 Board meeting.

R1.1.2 The District immediately expand the description of all items placed on the District Board's meeting agenda to fully comply with the requirements and intent of the Brown Act.

R1.2 The District revise its District Board meeting sign-in sheet to clearly indicate that adding one's name is a strictly voluntary action.

R1.3.1 The District immediately make available to the public a copy of all agenda materials as soon as it is provided to the Trustees, and that a copy be readily available for the public at the Board's meeting location.

R1.4 No later than November 1, 2013, the District place on its website all agenda materials provided to the Trustees prior to the Board meeting.

2.0 Lack of Understanding About Action Related to Health Insurance Benefits

On March 19, 2009, the District Board adopted a resolution to permit Trustees to participate in the same health insurance program that was offered to the District's employees beginning August 1, 2009. Under the District plan, an employee may choose from different medical plans and select coverage for: (1) the employee, (2) for the employee plus one dependent, or (3) a family plan. Vision and dental insurance coverage is also available with the same three options.

In July 2012, after the San Joaquin Taxpayers Association raised the issue, local newspapers began to report on the District Board's action of March 2009 authorizing Trustees access to health insurance benefits.

In November 2012 the District Board proposed to revisit the March 2009 action which concluded in a vote in January 2013 to continue the program. The Grand Jury wanted to clarify whether the Trustees understood the program/s being proposed for approval.

Following sworn testimony from 9 of the 11 Trustees and review of documents provided by the District, the Grand Jury came to the conclusion that almost all of the Trustees did not understand the structure of the health insurance benefit available to them, or who was covered pursuant to their action. Many of the Trustees testified it was their understanding that they were approving coverage only for the Trustee themselves and not for any family coverage. Some said they were not sure what or who the benefit covered but because the District's legal counsel and others said they had a letter saying it was legal, they voted in favor of the continuation.

Other Trustees indicated they voted *yes* because the District had enough money. While some Trustees said they voted for the benefit because other similar districts offered them, none of the Trustees interviewed could tell how many other mosquito districts in the State of California offered health benefits for its trustees. Based on information from the State Controller's files, the Grand Jury discovered that only three of the 68 other mosquito districts in the State offered health insurance benefits for its trustees. Sacramento-Yolo County Mosquito and Vector Control District provides medical, dental and vision insurance for its trustees, while the East Side Mosquito abatement District in Modesto provided dental and vision insurance benefits to its trustees.

Findings

F2.1.1 A majority of the District's Trustees, under sworn testimony, did not know the details of the health insurance program they were voting to grant themselves.

F2.1.2 A number of Trustees, under sworn testimony, indicated that they thought they were voting for health insurance coverage for the Trustee only, and not for family members.

Recommendations

R2.1.1 The District Board immediately rescind its action of January 15, 2013, pertaining to providing health insurance benefits to Trustees. If the topic is reconsidered, a resolution is to be prepared clearly indicating details of the health insurance coverage being provided, for whom coverage is available and the total cost to the District.

3.0 Trustees' Knowledge of District Finance

As the legislative body for the District, the Trustees must have a working knowledge of the District's finances to fulfill their fiduciary responsibilities to the public they serve. The District currently has an operating budget of \$7.7 million and reserve funds in excess of \$9 million. None of the Trustees interviewed could provide the Grand Jury (with any certainty), an explanation regarding the intended use/s of the reserve funds. Only one Trustee interviewed could provide even an approximate estimate of the amount of the District's budget.

Some testified that knowledge of the District budget and finance was left to the Board's budget committee and they only looked at fiscal issues when the budget was being adopted.

The public cannot easily become informed about the District's finances because its website does not provide information on the District budget or its annual independent audit.

Findings

F3.1 A majority of the Trustees lack a working knowledge of District finances.

F3.2 The District website does not include basic financial documents for public review.

Recommendations

R3.1.1 Beginning September 30, 2013, and quarterly thereafter, the District General Manager include an item on the District Board's agenda to provide information on the District's budget, expenditures and reserves.

R3.1.2 Beginning with the Fiscal Year 2014-2015 Budget, an explanation of the District's reserve funds and their intended purpose/s be included as part of the budget document.

R3.2 Prior to October 1, 2013, the District include the adopted annual operating budget and the most current audited financial statements on its website, with access from the website's home page.

4.0 Appointment of Trustees to the District Board

The District Board is comprised of 11 members, each serving a four-year term. There are no statutory qualifications to serve on the District Board. Four District Trustees are appointed by the San Joaquin County Board of Supervisors and each of the seven incorporated cities in the County appoints one Trustee. Currently there are no limits to the number of times an individual can be appointed to the Board. In fact, some Trustees and/or a member of their family, have served on the Board for decades. One Trustee interviewed indicated there was a expectation that the position on the Board was a family right and obligation. Another Trustee indicated that appointment to the Board was a good way to stay in a public forum to support future political aspirations.

Through its investigations and interviews, the Grand Jury found no reason to question the Trustees' commitment to fulfilling the District's Mission Statement to protect the public from mosquito- and vector-carried diseases. The Grand Jury is concerned that the amount of time some members serve on the District Board limits fresh perspectives on how best to serve the public and how to be better guardians of the District's resources. Also, long terms may lead to complacency in accepting proposals from District management without fruitful discussion and independent evaluation.

Findings

F4.1 Membership on the District Board is seen as a family right and obligation passed through generations, or as a pathway for political advancement.

F4.2 Long terms on the District Board may lead to complacency in reviewing District financial conditions and a clear understanding of issues brought before the Board for consideration.

Recommendations

R4.1 No later than November 1, 2013, the County Board of Supervisors and the City Council of each city in the County petition the appropriate agencies and/or the State legislature to establish term limits of two consecutive four-year terms for District Board Trustees.

5.0 The Best Governance Structure of the District Board to Serve the Public

Mosquito abatement districts have been in existence in California since the late 1880s when it became known that mosquitos carried disease. The early districts were created when the State was more rural and had fewer incorporated cities. In San Joaquin County, the first mosquito abatement district was formed in 1945 and was comprised of the City of Lodi and the northern portion of the County. In 1955, the County and the City of Stockton created a mosquito abatement district encompassing the southern part of the County. In 1980, the two districts consolidated to form the current District. In every case, the district was an independent special district.

In light of its investigation and those of prior Grand Juries, the 2012-2013 Grand Jury questioned whether the currently constituted District is the most effective means of providing vector control services to the citizens of the County. The Grand Jury reiterates that it has the respect for the employees of the District in keeping the County safe from mosquito and vector-carried diseases. It does have concerns about whether having a separate district with a separate board as the legislative body is the most effective structure for the present and future needs of the County.

Findings

F5.1 Issues regarding non-transparent functioning and actions of the District Trustees bring into question the need for the District Board as presently appointed by the Cities and the County Board of Supervisors.

Conclusion

When enacting the Ralph M. Brown Act, the State Legislature clearly articulated its intent by stating *"In enacting this chapter, the Legislature finds and declares that the public commissions, boards, and councils and the other public agencies in this State exist to aid in the conduct of the people's business."* It further stated *"The people of this State do not yield their sovereignty to the agencies which serve them. The people, in delegating authority, do not give their public servants the right to decide what is good for the people to know and what is not good for them to know. The people insist on remaining informed so that they may retain control over the instruments they have created."*

It is through this Grand Jury's review of the San Joaquin County Mosquito and Vector Control District Board of Trustees actions, that it determined the current Board of Trustees and their senior management lack the proper awareness of this legislative intent and the associated legal requirements. The lack of awareness by the District Board indicates they have not properly implemented the intent of the legislature by ensuring all of their business activities are open to public review and debate. The Grand Jury believes that through adoption and implementation of the recommendations contained within this report that the public's right to be informed of the activities of their public servants will be better fulfilled. Further, a new look at the Board's composition or even a new organizational structure may better serve the San Joaquin County community.

Disclaimer

Grand Jury reports are based on documentary evidence and the testimony of sworn or admonished witnesses, not on conjecture or opinion. However, the Grand Jury is precluded by law from disclosing such evidence except upon specific approval of the Presiding Judge of the Superior Court, or another judge appointed by the Presiding Judge (Penal Code Sections 911, 924.1(a) and 929). Similarly, the Grand Jury is precluded by law from disclosing the identity of witnesses except upon an order of the court for narrowly defined purposes (Penal Code Sections 924.2 and 929).

Response Requirements

California Penal Code sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of San Joaquin County Superior Court within 90 days.

The San Joaquin County Mosquito and Vector Control Board of Trustees is to respond to the following findings and recommendations:

Findings: F1.1, F1.2, F1.3, F1.4, F2.1.1, F2.1.2, F3.1, F3.2 and F5.1.

Recommendations: R1.1.1, R1.1.2, R1.2, R1.3.1, R1.4, R2.1.1, R3.1.1, R3.1.2, and R3.2.

The San Joaquin County Board of Supervisors is to respond to the following findings and recommendations:

Findings: F4.1, F4.2, and F5.1

Recommendations: R4.1

The Cities of Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton, and Tracey are to respond to the following findings and recommendations:

Findings: F4.1, F4.2, and F5.1

Recommendations: R4.1

Mail or hand-deliver a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
P. O. Box 201022
Stockton, CA 95201

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at

grandjury@sjcourts.org.

August 13, 2013

Presiding Judge
San Joaquin Superior Court
222 East Weber Avenue
Stockton, CA 95202

CITY OF STOCKTON RESPONSE
2012-13 CASE NO. 0112 – RECOVERING FROM STOCKTON’S FINANCIAL
SINKHOLE – DON’T FALL BACK IN

Much attention has been paid to the City of Stockton finances recently, and rightly so. The City declared an emergency based on fiscal circumstances in 2010 and began reducing expenses in order to balance the City’s General Fund Budget. The City declared a second fiscal emergency in 2011 and the City Manager indicated in his message in the 2011-12 Proposed Budget that the City’s General Fund was approaching insolvency. In February 2012, the City Council approved commencement of the AB506 Neutral Evaluation Process required of local governments before they may file for bankruptcy protection. After 90 days of mediation and with the City facing a \$26 million budget deficit for Fiscal Year 2012-13, the City filed for Chapter 9 bankruptcy protection.

With all due respect to the 2012-13 Grand Jury, there is important context to consider in the City’s response to your investigation. We have long recognized that prior city management made a series of errors that when combined with the depth and length of the Great Recession, doomed Stockton to this situation. The City Council and management team have been completely dedicated over the past three years to understanding the financial condition of the City and undertaking the corrections and reforms necessary to get the City on solid financial footing again. The Grand Jury has reviewed the reports that describe the causes of our situation and the Council’s priority goal: Get the City’s Fiscal House in Order. In response to this goal, staff prepared an in-depth review of the City’s fiscal condition, sought confirmation from an outside party by requesting a financial condition assessment and provided this detail to an independent external auditor. We also found poor practices in the accounting area, requiring us to restate previous financial statements. The independent auditor was requested to perform a complete and thorough audit that necessitated doubling the audit fees originally requested in the audit contract.

In addition, as part of the Council's strategic initiatives designed to address the Council goal to Get the City's Fiscal House in Order, at the request of the City Manager, Council approved a contract with a second independent auditor to perform an in-depth internal control audit (results should be available by August 2013). We believe this is the last piece, along with our other efforts, to truly getting our fiscal house in order. The City's former internal auditor opened on various aspects of the same issues e.g. arena. During all of the review, staff has also been managing the very detailed review of our finances by City creditors, the financial community and local, national and international media.

The findings by staff, contained in the financial condition assessment, in the City's Comprehensive Annual Financial Report (CAFR), the preliminary findings of the independent auditor's internal control review, and the Grand Jury report are all very comparable. They speak to weak systems and controls and prior leadership that either were careless or incompetent. While we thank the Grand Jury for their thoughtful review of the City's fiscal situation, we fail to see the purpose of continually retracing old ground that has been reviewed by so many people. In light of the context outlined above this letter provides summary responses to your findings and recommendations. For more detailed information, we point the Grand Jury to the numerous existing materials documenting our finances and the recommended improvements to our internal systems. In accordance with Sections 933 and 933.05 of the California Penal Code, the City Council of the City of Stockton offer the following responses to the Grand Jury Report on the above-referenced case as follows:

FINDINGS & RECOMMENDATIONS

1.0 Information Provided to the City Council

F 1.1 The agenda reports for the Events Center project for the December 14, 2004 council meeting, and other major projects were presented to Council Members with inadequate time to review the complex issues. The same finding was disclosed in the 2005-2006 Grand Jury report *City of Stockton Redevelopment*.

Response: *The respondent agrees with the finding. Council has hired three new City Managers since then, the current one has brought in a new management team. The new City Manager has created expectations for transparency and high performance, including improvements to the Council agenda process. Council holds the City Manager accountable for the information presented and the recommendations made. The City of Stockton has taken additional corrective action for complex and high profile issues as described in the response to R 1.1 below.*

- F 1.2 Few Council Members asked questions of City staff about the City's financial condition or the financial impacts of major expenditures they were being asked to approve.

Response: *The respondent agrees with the finding. In the past, City Council members were not given the time to review or the detail needed to make informed decisions. In the last three years the Council has been provided extensive financial information and actively engaged with City staff regarding the City's financial condition. In fact, when compared to other jurisdictions, the Council agendas are extremely extensive and detailed. The City of Stockton has also taken corrective action as described in the response to R 1.2.*

- F 1.3 The City Council's approval of loans between restricted funds without receiving any information or documents on the repayment requirements or impacts created an unclear picture of the actual fund balances in the various accounts.

Response: *The respondent agrees with the finding. The City of Stockton has already taken corrective actions as described in the response to R 1.3.*

- R 1.1 Information regarding major new and/or complex projects or programs that have an adverse impact on the City's financial condition be provided to the City Council members and public not less than 10 calendar days before the date of proposed Council actions to allow for a thorough review of materials and an opportunity for the Council Members and public to ask questions.

Response: *The respondent partially agrees with this recommendation. The City Manager currently demands and the City Council expects that all major new and/or complex projects or programs are provided to Council well in advance of proposed Council action. The City Manager typically recommends complex projects and programs be considered at a study session or by Council Committee prior to Council taking any action. However, the respondent cannot guarantee that all information on complex projects will always be provided 10 days in advance, but will continue to strive for the provision of complete information for Council and the public with adequate time for review.*

- R 1.2 The City Council hold a study session at least quarterly to receive and discuss complex financial issues to include, but not be limited to, the City's financial condition, long-term impacts of past, current and proposed financial obligations of the City, major capital outlays and employee

contracts. An opportunity for all members of the City Council and the public to ask questions is to be incorporated into the study session.

Response: *The respondent partially agrees with this recommendation. Since 2010, staff has presented quarterly financial updates at City Council meetings including detailed information regarding general fund budgeted revenues and expenditures. Staff will continue to conduct financial updates on a quarterly basis. However, the review of contracts, agreements and capital outlays are not well suited to quarterly reports. These items are better addressed at key milestones and decision points. For example, the Council reviews the Capital Improvement Program with adoption of the annual budget. In addition, as part of Council's goal to get our fiscal house in order and through the the City's bankruptcy process, long-term financial forecasts have been prepared and reviewed with Council. Council has also received presentations prior to annual adoption of the City's health plan financing, municipal capital projects and utility financing along with 10 year proformas, and a review of the City's Comprehensive Annual Financial Report (CAFR). Staff will continue to bring these important issues forward to Council when appropriate.*

R 1.3 All proposals for the City Council to authorize inter-fund loans be accompanied with loan documents detailing obligations of the loan and any impacts on the City's General Fund.

Response: *The respondent agrees with this recommendation. The City Manager currently requires that any proposal for an inter-fund loan will be brought before Council and must be accompanied with loan documents detailing the obligation, its impacts on the General Fund, if any, and the plan for repayment including the term of the loan and source of repayment. In addition, no later than December 2013, staff will prepare for Council adoption an inter-fund loan policy specifying these requirements.*

2.0 Effectiveness of the City Auditor

F 2.1.1 While the City Auditor is accountable only to the City Council under the City Charter, city managers influenced the Auditor's day-to-day operations through recommendations on the City Auditor's budget, thus limiting the Auditor's direct interaction with department heads.

Response: *The respondent partially disagrees with this finding. The City Auditor has always been provided full access to City Council as an appointee. He received private performance reviews by the Council. In addition, the City Charter outlines the requirement to provide access to department heads, City personnel and City records in their role and responsibility. That level of authority was never ~~not~~ circumvented by*

budgetary constraints imposed by the current City Manager. It is typical for the City Auditor, similar to other departments to operate within budgetary constraints which require thoughtful planning to develop a risk based approach to their audit strategy. However, the City Auditor has an added benefit of conferring directly with his appointing authority, the City Council. This enables the office to deploy the City's finite resources to those areas that pose the highest risk to the organization. The respondent does agree that the City Internal Auditor function was not as robust as it should have been and has accordingly taken steps to improve the audit function including outsourcing it to a reputable CPA firm. This has provided the City with an independent third party auditor that is current on standards and audit procedures. The contract City Auditor is currently conducting a thorough risk assessment in order to develop an effective but cost efficient audit plan that targets strategic risks and opportunities.

F 2.1.2 The City Council showed little actual activity in fulfilling its obligations to oversee the City Auditors' Office.

Response: *The respondent partially disagrees with this finding. While not violating confidential personal matters, we can say the former Council expressed opinions on performance and expectations with the former City Auditor*

F 2.2.1 The City Auditor was instructed by a former city mayor and former city manager not to review the City's overall finances. The City Auditor did not at that time or since, conduct independent reviews of revenue or expenditure projections used for project and program funding.

Response: *The respondent is not in a position to agree or disagree with this finding. The current City Manager has no knowledge of this request and provided no such direction to the City Auditor. In fact, it was the current City Manager that specifically asked for an internal control audit by him. The City has been very transparent with the City's financial situation and requested that a third party financial condition assessment be conducted. The City has also brought in new external financial auditors that have conducted an in-depth review of the City's fiscal situation. Finally, the new internal auditors are conducting a robust risk assessment and internal control audit.*

F 2.2.2 Elected officials testified that the City Auditor was not assertive in conducting reviews and evaluations of city contracts, department programs, or the overall City financial condition, thus denying the City Council and public an independent review of financial implications of the city managers' recommendations.

Response: *The respondent agrees with this finding. This was an important factor in determining to revitalize and outsource the audit function as described in our response to F 2.1.1 and F 2.1.2. The City Council has directed the contract auditors to provide independent review and perspective. The City Manager supports the independent and critical analysis of the contract auditors. Completion of the risk assessment and development of an annual audit plan are critical components of assuring an independent review of key risk areas for the City.*

F 2.2.3 The City Auditor did not conduct, nor did the City Council direct, a separate review of compliance with construction contracts related to the Events Center or the assumptions on which financial decisions for the project were made.

Response: *The respondent partially agrees with this finding. The City Auditor's office conducted an internal control evaluation of the Stockton Events Center (report dated March 2007). The Council hired an external auditor to conduct a Stockton Events Center fiscal evaluation (report dated February 2006). The results of these showed weaknesses in overall project management. No audit was conducted regarding the financial assumptions used regarding the project. This all occurred over 7 years ago. Since then we have extensively used independent firms to review or develop assumptions behind major financial decisions.*

F 2.3 The recent practice of using a firm as the City Auditor gives the City Council more flexibility in directing what audits and studies are to be conducted since a wider field of expertise offered by the firm can be tapped to undertake the investigations.

Response: *The respondent agrees with this finding. An important factor in considering contracting out the audit function was the depth and breadth of experience that an external audit firm could provide.*

R 2.1 The City Council adopt a concise policy by December 31, 2013 identifying the City Council's oversight obligations of the City Auditor, whether an individual or a firm, and the review process of the Auditor's findings and reports.

Response: *The respondent agrees with this recommendation.*

The Council has a unique opportunity with the pilot project of outsourcing the City's audit function to evaluate this relationship and clarify the roles and responsibilities of the Council and the City Auditor. In addition, the Council Audit Committee has determined to undertake a review of their role and establish a Charter outlining their scope of responsibilities. This

will include a schedule of the types of reports and audits they expect to be provided by the City Auditor. Those elements of this review that are appropriate for inclusion will be adopted into a new version of City Council Policy 100-4, Mayor Appointments to Council Committees and Committee Structure/Function. The review of City Council Policy 100-4 is also related to the City's response to R 5.3 and R 6.1.2 discussed below. Council Policy 100-4 will be reviewed and updated by no later than December 31, 2013.

- R 2.2 The City Council adopt a policy by November 30, 2013 clarifying the types of audits and reports the City Auditor is to perform and when the audits are to be conducted and under whose direction they are to be undertaken.

Response: *The respondent agrees with the concept of this recommendation, but not the prescribed timing. As noted in the response to R 2.1 above, a review of City Council Policy 100-4 as it related to the Council Audit Committee will be undertaken. There may be elements of this review that clarify the types of audit and reports that the Council Audit Committee would like to receive. However, it is overly proscriptive to determine by ordinance specific audit and reports required of the City Auditor. The purpose of the risk assessment and annual audit plan is to provide direction from the Council Audit Committee to the City Auditor in conducting the appropriate audits and reports based upon the current needs of the City. We are also in test mode with the contractual auditor model and will not commit to a longer relationship at this time.*

- R 2.3 For the next two years, the City contract with an outside firm with multiple areas of expertise to serve as City Auditor. The use of a firm (versus an individual) is to serve as City Auditor to be evaluated as a distinct action item annually as part of the budget review and adoption process.

Response: *The respondent agrees with this recommendation except it will not commit to the two year window until we review their work during this initial trial phase. On March 5, 2013, the City Council approved a contract with Moss Adams, LLP, who possesses extensive experience providing local government internal audit services and audit services. The contract provides the City with the option to either continue the contract after the first six month period or to terminate the contract upon completion of the risk assessment and internal control audit. Following completion of this initial 6 month project, staff will work with the Audit Committee and City Council in preparing an analysis of performance under this arrangement and recommend future direction of the internal audit function.*

3.0 Effectiveness of the City's External Auditors

F 3.1 The long-term nature of the contract with the former External Auditor firm may have been a major cause of complacency by both the auditors and City staff. The friendliness between the auditors and finance staff undermines the integrity and objectivity regarding the thoroughness of the audit process.

Response: *The respondent agrees with this finding. It is worth noting that being long-term or friendly are not criteria that specifically impair independence, however long term contracts and failure to rotate firms to obtain fresh perspective may impair independence. The City previously contracted with the same audit firm for ten years. This was too long. This is why city management encouraged the change. The term of the agreement expired in May 2011, and the City determined it was most appropriate to competitively bid the contract and seek out a new auditor to complete an in-depth review of the City's finances. Though the City is not required to rebid the contract every five years this will continue to be the City's practice.*

F 3.2 The City Auditor did not manage the external audit process in an effective manner to determine if a full independent review of the accounting processes was being conducted.

Response: *The respondent agrees with this finding based on the magnitude of accounting errors requiring restatement of prior year financial statements as reported in the June 30, 2011 Comprehensive Annual Financial Report. These errors were found by City management and have been corrected and particular attention has been paid to closely managing recent and current external audit processes.*

F 3.3 The final audit for the fiscal year ending June 30, 2011 indicated there had been major deficiencies and material errors in the prior financial accounting records and procedures, which the prior external audit firm failed to identify and emphasize in their reports.

Response: *The respondent agrees with this finding. These errors were discovered in large part by the efforts of City staff and communicated to the external financial auditors for review and documentation in the June 30, 2011 final audit.*

F 3.4 Concerns raised by the former External Auditors were repeated in subsequent Reports to Management indicating a lack of accountability before implementation of the City's action plan response by prior city management.

Response: *The respondent agrees with this finding. Many of the deficiencies identified by the previous external auditors have been addressed by new management, like cash reconciliation, accounts receivables, etc. The City of Stockton has taken corrective actions as described in the response to R 3.3.2.*

R 3.1 The City Council adopt a policy no later than November 1, 2013 that stipulates all contracts for external audit services, including the preparation of the CAFR, be awarded for three year terms, with a maximum of two one- year extensions.

Response: *The respondent agrees with the concept but disagrees with the recommendation there must be a firm policy.. The City supports awarding external financial contracts for terms that balance continuity with complacency. However, it is overly proscriptive to establish a policy stipulating that all contracts for external audit services have a particular term, three year terms with a maximum of two one-year extensions. There may be unique circumstances or audits that merit different terms. City management plans to award future external financial audit contracts according to the terms outlined in this recommendation, but does not intend to create a policy stipulating this term for all external audit services. We need to balance price, learning curve costs, performance and other emerging factors. At some future date we may want to contract for auditing for less than 5 years.*

R 3.2 Effective with the current external audit contract, the City require the audit firm to regularly rotate audit supervisors to provide fresh perspective on the City's financial accounts and operations, and to establish an arms-length professional relationship between the audits and City staff.

Response: *The respondent disagrees with this recommendation. A certain level of continuity is valuable in the financial audit process. Excessive turnover can in turn cause things to be missed. In order balance continuity with fresh perspectives in the current external financial audit, the City has requested the audit firm to provide strong partner and manager involvement. This involvement of multiple senior auditors in a collaborative approach both builds institutional knowledge and provides a variety of perspectives for approaching this critical audit. In addition, it is a common practice to rotate audit firms every five years as opposed to requiring audit firms to rotate their managers or supervisors during the term of a contract. To enhance and preserve independence, the City's process will be to rebid the audit contract at a minimum of every five years. This will eliminate the need for partner or audit engagement personnel rotation.*

- R 3.3.1 No later than September 30, 2013 the City Council annually select a qualified individual or firm to provide an independent review of the external audit's Letter to Management and city management's response to include a report of findings to the City Council.

Response: *The respondent disagrees with this recommendation. This recommendation adds yet another layer of review that will actually slow improvements down and consume extraordinary amount of staff time bringing up another firm up to speed. It is not a wise use of tax payer dollars. The recommendation is not considered a standard practice within governmental agency audits nor other industry audits, including publicly traded companies. City Council Policy 100-4, establishes the responsibility of the Audit Committee to review the external audit and reports of the external auditor. The Chief Financial Officer, who reports to the City Manager, and the City Manager are charged with fixing any issues. The role of the audit committee in that policy is considered standard practice. The audit reports, Letter to Management on Internal Controls and responses have been and will continue to be provided to the audit committee in advance of the meeting with subsequent discussion at an open meeting of the audit committee. The City of Stockton recognizes the concerns caused by past audit errors. However, the City has demonstrated transparency, accountability, and professional expertise in recent years by finding and correcting these errors. City staff and the City Council, with assistance from new internal auditors and external auditors, are responsible for assuring the financial audits are sufficient and these be followed through.*

- R 3.3.2 Following the completion of the FY 2012-13 audit, the Chief Financial Officer and the City Manager provide the City Council with quarterly status reports describing actions that had been taken to address all recommendations, deficiencies and material weaknesses identified in the CAFR.

Response: *The respondent agrees with this recommendation. The Council Audit Committee holds regular meetings with the newly contracted City Auditor. Regular updates on the status of all audit findings will be provided to the Council Audit Committee by the Chief Financial Officer in coordination with City departments. After the FY 2012-13 audit, there will be an extensive review of all outstanding findings. Audit committee minutes are provided to the City Council.*

4.0 City Finance Department's Operations

F 4.1.1 The Finance Department under the prior city government did not provide other City departments with timely or accurate information regarding financial status of expenditures versus budget appropriations.

Response: *The respondent disagrees with this finding. Financial reporting tools and systems for the City of Stockton could be improved. Due to antiquated accounting systems the departments have had difficulty understanding how to use the system to get the information they need. However, City departments have staff with access to the City's General Ledger and ability to print various financial reports. The Finance Department has an advisory and oversight role, but it is the Departments' responsibility to manage their funds and programs and ensure compliance with City's policies and procedures including budgetary compliance. The Finance Department has developed improved financial monitoring tools and is working with departments for roll out.*

F 4.1.2 Using the cumbersome and outdated financial software, few detailed financial reports have been prepared for the City Council because of the difficulty in extracting and arranging data in a meaningful manner.

Response: *The respondent agrees that existing financial software is cumbersome and outdated. However, we disagree on the assertion the Council has received few reports. The software has been identified for replacement in the City's Technology Strategic Plan (CTSP). We will need voter approval of Measure A in November to find its replacement. In the last three years, the Finance Department and outside professional service providers have produced custom reports on a quarterly basis in order to communicate to Council the financial condition of the City. We have also produced 10 out of 20 year financial forecasts as an aide in planning for the exit of bankruptcy. A modern software system will reduce the need to produce these custom reports.*

F 4.2 Recommendations have been provided to the Stockton Civil Service Commission to upgrade selected staffing classifications and qualifications in the Finance Department; a CPA has recently been hired to augment the finance department's management. Additional classification reviews are needed to improve the overall qualifications and accounting capabilities of the department's employees.

Response: *The respondent agrees with this finding. The City of Stockton has taken corrective action as described in the response to R 4.2.1.*

F 4.3 The complexity of City funds and accounts permitted prior city governments to move money among accounts without adequate tracking or knowledge of actual balances in the funds.

Response: *The respondent agrees with this finding. City staff are aware of the complexities and challenges associated with numerous funds and account numbers. Given the size of the City and the services we provide, it is not uncommon to have a more complex budget. However, the City is pursuing those changes that are appropriate to simplify our financial structure as well as pursuing tools to better report our financial condition.*

R 4.1 No later than December 31, 2013, the City Council approve a study for an approach to replace or upgrade the finance operation's computer and software to current technology standards, and to develop a plan under the Direction of the City Manager and Chief Financial Officer to implement such a change.

Response: *The respondent agrees with this recommendation. The City Technology Strategic Plan identified the City's financial system as critical for replacement. Staff is initiating plans to hire a consultant to perform a detailed requirements analysis as the first step toward system replacement. This analysis will identify technical and business needs, as well as the plan for conversion. It is estimated this activity will take 3 to 4 months and will be brought before Council when complete. The full implementation beyond this initial phase will take a long time and represents a significant financial investment for the City. Not all funds have been identified to complete the full implementation of a new financial system.*

R 4.2.1 No later than December 30, 2013, the City's Chief Financial Officer conduct a comprehensive review of the education and experience requirements of all classifications within the Finance Department and submit recommendation to the Civil Services Commission for approval of the changes.

Response: *The respondent agrees with this recommendation. The Administrative Services Department management has already revised Accountant/Accountant II /Sr. Accountant classifications, which now include preference for a CPA certification. The Civil Service Commission approved the updated job classification in February 21, 2013. The Administrative Services Department management staff will further review and revise remaining job classifications to improve the qualifications and skills of department's employees by no later than December 30, 2013.*

- R 4.2.2 No later than December 30, 2013, the City's Chief Financial Officer and City Manager prepare a training program with measurable outcomes for all Finance Department staff to improve their general finance and accounting skills and to provide for increased responsibility.

Response: *The respondent agrees with this recommendation, but reserves the discretion to implement this recommendation in consideration with competing priorities. The organization has a history of providing on the job training and offering some training sessions and events at the employees request and supervisor approval. Moving forward the Finance Department will establish training goals for each of the employees within their annual evaluation. This will aid the department in beginning the process of increasing the knowledge and skill of staff. In recent years, the department has encouraged attendance at trainings and professional conferences and in general created an improved culture of continued learning. However, due to competing priorities, a full training program has not been developed. A more formalized training program will be established once the City has exited bankruptcy and funding for these programs resume.*

- R 4.3 Prior to the Fiscal Year 2014-2015 budget preparation the Chief Financial Officer, with assistance from the City Auditor and External Auditors, review the City's Chart of Accounts and submit recommendations to the City Council on revisions to simplify the fund and account structure for more control and accountability.

Response: *The respondent agrees with this recommendation. The Administrative Services Department is in the process of reviewing the account structure and number of funds and will consolidate funds to simplify the account structure when appropriate. Several funds have already been consolidated that do not require a separate tracking for external purposes and created additional work. We anticipate that this work will have a better impact in the implementation of a new financial system rather than expending significant resources redesigning an old account code in an old financial system. Rather than migrating old data we will establish a new and modern chart of accounts that is scalable to the City.*

5.0 City Budget

F 5.1.1 A director's management of his/her department's budget relies on timely and accurate information on expenditures versus budgeted amounts. Failure to have the information available to the directors reduces their ability to be financially accountable.

Response: *The respondent agrees with this generic finding. Given the limitations of the antiquated Stockton financial system, the departments have the ability to manage their budgets, but more must be done. See response to R.5.1.*

F 5.1.2 A City Manager requires timely and accurate financial information to provide oversight and control of expenditures versus appropriations, which was not readily available in the past.

Response: *Again, given the antiquated financial systems, the City Manager gets quarterly reports on budget performance, however, the timelines of these could be improved, See response to R.5.1.*

F 5.2 An identification of key performance indicators had not been clearly presented by the City Council to the public.

Response: *The respondent agrees with this finding. A comprehensive report on Service Efforts and Accomplishments was prepared by the former City Auditor in 2008. Due to the reductions in staffing (43% non-safety) these efforts were curtailed. This finding does not recognize the current state of our bankruptcy and competing priorities.*

F 5.3 Past City Councils were not kept informed of the extent to which departments were or were not adhering to their budget appropriation limits, or about the City's overall financial health.

Response: *The respondent agrees with this finding in the past. However, the City Council has been kept informed on budgets and overall financial health more so than most cities in this state.*

R 5.1 Department heads be held accountable by the City Manager to stay within Council's budget appropriations, with quarterly public reports prepared identifying and explaining all significant deviations.

Response: *The respondent agrees with this recommendation. The City Manager does hold Department heads accountable to stay within their budgets. Detailed quarterly reports are prepared by operating departments and verified by budget staff and management. These reports*

are then presented at Council meetings for all General Fund departments and for those departments that have funding sources closely related to the General Fund.

Additionally, a financial management tool has been developed by finance staff that provides department heads with timely, high-level information regarding budget status. Department heads can use this tool to monitor their budgets and be quickly alerted to developing issues. Departments will also account for their budget status on a regular basis using this tool.

- R 5.2 A public discussion and subsequent development of key performance indicators by the City Council with assistance from the City Manager, Chief Financial Officer and City Auditor, be completed prior to February 2014.

Response: *The respondent agrees that key performance indicators would provide an excellent tool for monitoring budgets and financial and operating performance. Given the existing demands on a severely reduced workforce this recommendation will not be implemented as early as February 2014. As the top priority of getting our fiscal house in order is accomplished, and the implementation of the Marshal Plan along with the other 37 Strategic Initiatives are addressed, we can take up performance measures. Again this recommendation is not based in the realities of our limited capacity and the competing priorities identified in this report.*

- R 5.3 Beginning with the Fiscal Year 2013-14 the City Manager and Chief Financial Officer provide the City Council a review of the budget expenditures at least quarterly, with a mid-year Council workshop to review the budget status in detail. When the key performance indicators have been established, they are to be included in the reviews. The requirement for these reports to be adopted as a City Council policy.

Response: *The respondent partially agrees with this recommendation. Council currently receives quarterly budget updates on the general fund and related funds. In Fiscal Year 13-14 these quarterly updates will be expanded to include other major departments and funds. As performance measures are incorporated into future budgets, these will be included in the quarterly reviews. When a comprehensive performance management program is developed, the City will consider whether it is appropriate to proscribe how these measures are reported through Council Policy.*

6.0 City Council Budget and Audit Committee

F 6.1 Testimony from both elected and appointed City officials indicated the Audit Committee provided limited oversight of the City Auditor's function. Presentations on the annual financial audit were not detailed, and no witness recalled the Committee making inquiries into the External Auditor's results, findings or recommendations.

Response: *The respondent partially agrees with this finding. Additional oversight of the City Auditor was conducted in closed session performance evaluations. The City of Stockton has taken and will take corrective action as described below in the response to R 6.1.1 and R 6.1.2.*

F 6.2 Appointment to and removal from the Budget Committee by the prior city government had been based on political alliance rather than interest or knowledge of the City's fiscal activities, limiting the inquiries into the former management's activities.

Response: *The respondent is not in a position to agree or disagree with this finding. The current Council cannot ascribe the motives or account for the skills sets of previous Councils.*

R 6.1.1 No later than November 1, 2013 the City Council amend Council Policy No. 100-4 to create a single Finance Committee to replace the current budget and audit committees, to allow the new Committee's involvement with the FY 2012-13 CAFR review and the FY 2014-15 budget adoption. The purpose of the new Standing Committee would be to review in detail and make comprehensive recommendations to the whole City Council on financial matters including, but not limited to, those related to the City's budget; internal and external auditor reports; proposed bonds or loans; any proposed fee or tax increases or modifications; and modifications to the City's account and/or budget structures. The Committee should meet no less than quarterly.

Response: *The respondent disagrees with this recommendation. Currently, the Audit Committee has expressed interest in reviewing their scope and responsibilities. In addition, given the financial condition of the City, the full Council has expressed an interest in hearing all financial issues as a body. Given the entire Council is immersed in the City's finance as we work our way out of bankruptcy, adding a Finance Committee is redundant and hugely time consuming for a greatly reduced staff. Staff is already stretched given competing demands. Having a committee weigh in on the budget and then the full Council, is simply redundant, This added measure will slow down efforts in other areas, In*

addition, as the financial condition of the City stabilizes, the Council will have to determine the appropriate process for reviewing financial information into the future. As this determination is made, staff will provide for Council adoption an amended Council Policy 100-4.

- R 6.1.2 Prior to December 1, 2013 the City Council review and amend as necessary the stated purpose of all Standing Committees established in Council Policy 100-4 and provide clear specifications of the committees' scope of activity, in particular minimum effective oversight responsibilities.

Response: *The respondent is not prepared to agree or disagree with this recommendation. As previously noted, the Council Audit Committee will be reviewing their scope and responsibilities. The City of Stockton has a number of competing priorities. As a result, a review of Council Committee roles and responsibilities will be addressed as other priorities are addressed. Resulting updates will be incorporated into Council Policy 100-4, but the City is not prepared to commit to a specific outcome or timeline at this point.*

- R 6.2 By November 1, 2013 the City Council amend Council Policy 100-4 to set defined staggered and rotating two-year terms on the Finance Committee in order to bring fresh perspective to the committee's deliberations and to provide an opportunity for more council members to serve

Response: *The respondent disagrees with this recommendation. Respectfully, this recommendation seems counter to the implied suggestion in F 6.2. The City is not prepared to proscribe terms or qualifications for appointment to City Council Committees. Appointment to Council Committees is at the discretion of the Council and can be adjusted at any time by Council approval.*

7.0 Financial Training for City Council Members

F 7.1 The degree of training and knowledge about municipal finance varies among the current council members who responded to the Grand Jury's survey.

Response: *The respondent agrees with this finding.*

F 7.2 The current City Manager and CFO provide training on financial matters as they relate to issues being presented to the city council.

Response: *The respondent agrees with this finding.*

F 7.3 The lack of knowledge about municipal finance resulted in some council members not having the ability to ask questions or understand the financial information presented to them.

Response: *The respondent disagrees with this finding. The City recognizes that it can be difficult for some Council Members to become experts on municipal finance. All human beings have varying degrees of financial acumen. However, current management has taken great lengths to share transparent and complete information with the Council. The current Council has become well versed on the financial condition and the deficiencies of the financial condition of the City in a very short amount of time.*

R 7.1 The City Council submit a policy resolution for consideration during the League of California Cities (LCC) annual conference for the League to establish training programs for local elected officials to learn about the various aspects of municipal finance similar to the depth and content of the California State Association of Counties (CSAC) courses.

Response: *Staff disagrees with this recommendation. The deadline for submitting League of California Cities was July 20, 2013. The City is supportive of municipal finance training for elected officials. However, given the demanding workload of the City, there were not sufficient resources to develop a LCC resolution prior to the July 20 deadline. Our priority is ensuring our Council as up to speed on financial matters, and they are.*

R 7.2 The City Manager and CFO develop a workshop for elected officials on municipal finance operations, structure, responsibilities and oversight drawing upon best practices developed by other cities and professional organizations (with the assistance from local educational institutions). The workshop shall be available to all newly elected members of the City

Council during the period between when election results are known and the members assume office.

Response: *The respondent disagrees with this recommendation. The League of California Cities provides training for new Councils and it provides additional training options throughout the year, We have encouraged Council to utilize this source. The City is committed to providing extensive municipal finance training to elected officials. However, we question proscribing the precise format and venue. The current practice at the City includes the City Manager providing recently elected Council members with extensive information about the City's budget and finances and reviewing this information in personal meetings. In addition, there are continual efforts to ensure Council is comfortable with and understands the information presented to them. This occurs through weekly meetings with the City Manager, quarterly budget updates, study sessions on various topics and detailed staff and consultant reports that are issue specific. The extensive financial information in staff reports suggests the extent they are briefed on financial matters. One of the only benefits of our financial status, the City Council is conversant on financial matters of the City. Finally, financial acumen is like learning ~~leaving~~ a foreign language. A class doesn't help, regular practice does. Our practice in informing Council on financial matters is in the top tier of the state.*

R 7.3 No later than January 2014 the City Manager and CFO present bi-monthly workshops to educate elected city officials about the various operations and responsibilities of Stockton's financial operations.

Response: *The respondent disagrees with this finding. The City does not have the staff, resources or time to offer bi-monthly meetings. The responses to R 7.1 and R 7.2 above will provide the Council with information related to local government finance. Should Council wish to have information presented on a specific topic or should management see a need to provide a workshop, this information will be incorporated into the quarterly financial updates or as a special study session on an as needed basis.*

8.0 Council and Manager Responsibilities and Oversight

F 8.1 The behind the scenes actions and lack of complete and clear information from former city managers resulted in elected officials and the public having a false sense of confidence in the City's financial condition.

Response: *The respondent agrees with this finding. Additionally, a lack of proper auditing also led to a false sense of confidence in the City's financial condition. The Comprehensive Annual Finance Report for 2010-11 contained 37 findings. The City received an unqualified audit opinion but only after making multi-million dollar adjustment to prior year's final records. The City's prior audit contained only 3 findings, indicating a poorly conducted audit. The City of Stockton has taken corrective action as described below in the response to R 8.1.*

F 8.2 Failure of prior City Council Members to request information about or to question actions by city managers and mayors raises concerns of whether actions were taken for the City's benefit or for personal/political gain.

Response: *The respondent is not in a position to agree or disagree with this finding. The current City Council is not in a position to comment on the motives of former City Council Members. However, the City is prepared to recognize that it is staff's responsibility to properly inform Council of the City's financial situation. As evidenced in this Grand Jury report, past City Management provided limited or inaccurate information. For example, when the retiree health benefit was expanded to all employees, staff did not seek an actuarial study, did not ever properly fund the program and did not discuss the mounting liabilities with Council. When the City considered external retirement benefits, staff did not consider the interplay between the two new benefits and the City retirements of employees. The two left the City with a \$700 million unfunded liability for current management and Council to deal with. It is staff's professional responsibility to provide Council with complete and accurate information for decision-making purposes.*

R 8.1 The City Manager and his/her administrative staff provide detailed, timely, and accurate information supporting proposals with significant long-term financial implications for the City and that such documents be available to the public.

Response: *The respondent agrees with this recommendation. This has been the practice over the past three years. Staff has prepared extensive documentation for the City Council relative to the financial condition of the City in order to get the City's fiscal house in order. Council, staff and the community have a clearer picture of the long-term financial condition of*

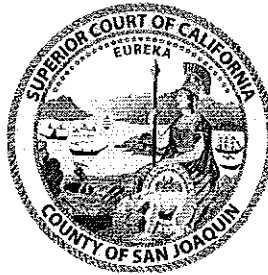
the City than they have in the past 20-30 years. This practice will continue into the future. The City Manager personally reviews all information presented to Council. City Management expects thorough and complete information be presented to Council so they may make a thoroughly informed decision. Long term impacts of proposals to Council are always considered and discussed.

R 8.2 Beginning immediately, ensure any proposals by the Council Members and the Mayor with long-term financial implications for the City be openly disclosed, explained and discussed for public review.

Response: *The respondent agrees with this recommendation. Proposals brought forward by the Mayor or a Council member are thoroughly reviewed by staff. Staff always prepare a report discussing the financial impacts of the proposal and provide a recommendation for Council consideration.*

BOB DEIS
CITY MANAGER

BD:VB

San Joaquin County Grand Jury**RECEIVED**

MAY 24 2013

CITY MANAGER
CITY OF STOCKTON**Recovering from Stockton's Financial Sinkhole –
Don't Fall Back In
2012-2013 Case No. 0112****Summary**

The City of Stockton's financial situation has deteriorated over the past decade leading to the City's filing for bankruptcy protection under Chapter 9 of the Internal Revenue Code. The 2012-2013 San Joaquin County Grand Jury (Grand Jury) was concerned about the impact of the bankruptcy filing on the City's current and future services. However, the complexity of the bankruptcy action and the court filings led to the Grand Jury's decision to not look at the details of the bankruptcy itself, but rather to review the City's financial policies, procedures, and past actions that may have been material causes of the financial deterioration. This Report reveals what happened in hopes of shedding light on identifiable problems with the City's past actions so that similar problems might be avoided in the future.

Among the issues evaluated were the City's internal financial procedures and capabilities; the role and competency of internal and external auditors; information provided by staff to the City Council; the City's administrative leadership's role in the financial problems; and, the capabilities and financial stewardship of the City's elected officials. During its investigation, the Grand Jury made a number of findings including evidence of inadequate information presented to the City Council by a former city manager; lack of project oversight; unilateral control and manipulation of projects by a former city manager without City Council knowledge or approval; poor accounting of the various transactions involving the Events Center; lack of reliable information between city staff and the City Council; and, a financial system that is inadequate for the accounting needed.

In view of these findings, the Grand Jury's recommendations reflect concerns that the City's financial operations need strengthening in personnel, procedures and equipment; that the audit activities, both internal and external, need better oversight by elected and appointed officials; that information on fiscal matters be given greater emphasis, clarity and attention; and, the elected City Council become better prepared to understand and address the complexity of local government finances in Stockton.

Glossary

Agenda Report	A report to the City Council usually prepared by city management providing an explanation of the requested action by the council members, including background information and the text of any resolution or ordinance proposed for adoption.
CAFR	Comprehensive Annual Financial Report; the annual report prepared by the City's external auditor and includes both financial information and general city fiscal and statistical information.
CFO	Chief Financial Officer; the individual responsible for the management and oversight of the City's financial operations.
City Auditor	The individual or firm appointed by the City Council to conduct internal audits of city operations and finances.
City Charter	The Charter of the City of Stockton which establishes the general framework for the government organization, authority, and operations.
City Council	Unless otherwise specified, includes the six elected council members and the mayor of the City of Stockton.
City Manager	The chief executive officer hired by the Stockton City Council to administer day-to-day operations of the City.
Council Member	Any one of the six elected members of the Stockton City Council; does not include the mayor.
CSAC	California State Association of Counties; an association comprised of and representing the interest of counties in California.
Current City Government	Unless otherwise specified refers to the mayors, city council members and city managers holding those positions between 2009 and the present.
Events Center	Includes the arena, ballpark, marina and other capital projects in downtown Stockton.
External Auditor	The firm hired by the City Council to conduct an annual audit of the City's financial records and procedures.
Fiscal Year / FY	Fiscal year; the Stockton government's financial year beginning on July 1 and ending the following June 30.

GASB	Governmental Accounting Standards Board; a federally established entity that establishes accounting standards for government.
GFOA	Government Finance Officers Association; a national organization of public finance officials.
KPI	Key performance Indicators; the quantifiable indicators used to measure performance to meet key operational goals.
LCC	League of California Cities; an association comprised of and representing the cities in California.
<i>Material Weakness</i>	The most critical of audit findings, these are deficiencies or combinations of deficiencies in the City's internal controls whereby there is a reasonable chance that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.
Mayor	The separately elected mayor of the City of Stockton pursuant to the City Charter with limited and defined authority under the City's Council/Manager form of government.
Prior City Government	Unless otherwise specified refers to the mayors, city council members and city managers holding those positions between 2000 and 2009.
Priority-Driven Budget Process	A method of preparing a budget by allocating available funds for service based on the importance of the service to meet long-term goals of the City
<i>Significant Deficiency</i>	An audit term referring to a shortcoming in a highly important control area, or a combination of problems, that could result in a misstatement of the financial statements that have consequences for the accuracy of the audit.

Background

The City of Stockton (City) is a Charter City operating under a Charter first adopted by the people of Stockton in 1888 and ratified by the State Legislature in 1889. As a Charter City Stockton is not restricted to the authorities granted to cities under California law. It may grant itself other authorities or undertake programs not specifically prevented by State law or the State Constitution. A charter city is subject, however, to general rules of operation that are required of all local governments in the State, such as an annual financial audit, public meeting procedures and public record requirements. The City Charter was amended in 2000 to allow the mayor to be elected by the citizens of Stockton; a change from the prior practice of the city council members selecting a mayor from within its membership.

The City Charter, Article XI, Section 1102, defines the scope of the powers and responsibilities of the Mayor, which include, but are not limited to:

- Preside at Council meetings and vote as a member (without power of veto);
- Review the City Council agenda and add items as necessary;
- Direct officials appointed by the Council to provide information to the Council on matters requiring Council action;
- Request budgetary and other information from officials appointed by the Council;
- Recommend adjustments to the City Budget and propose modifications or curtailment of any city service; and
- Make recommendations for appointments to Council committees, subject to approval by the other Council Members.

The operations of the City are managed under a Council/Manager form of government where the City Council is responsible for establishing the City's policies, adopting annual budgets and interacting with other governmental entities. The Council also appoints individuals to serve in specific positions in the City's government, including the city manager, city attorney, city auditor and city clerk. The city manager is the chief administrative officer. The City Charter, Article XII, Section 1201, defines the powers and duties of the City Manager. Among the powers outlined are:

- Direct and supervise the administration of all departments, offices and agencies;
- Prepare and submit the annual budget of the Council;
- Make and execute contracts and authorize expenditures of less than \$20,000;
- Submit an annual report on the finances and administrative activities of the City, including an accurate and complete review of the fiscal status of the City; and
- Faithfully execute all laws and provisions of the City Charter.

Issues

The Grand Jury initiated this investigation out of a concern for the potential long-term impact of the City of Stockton's financial situation and what may have been factors leading to the current financial position. While prior San Joaquin County grand juries have looked at the City's financial situation as it related to the City of Stockton's Community Development Department and the Redevelopment Agency, the current Grand Jury expanded its review to include the following general areas:

- Information provided to the City Council by City staff
- Effectiveness of the City Auditor
- Effectiveness of the City's External Auditors
- City Finance Department's Operations
- City Budget
- City Council Budget and Audit Committees
- Financial Training for City Council members and City Mayor
- City Council and City Manager Responsibilities and Oversight

Method of Investigation

The 2012-2013 Grand Jury performed the following:

Materials Reviewed

Prior Grand Jury reports

Management letters from the External Auditors from FY 2004-2005 through FY 2009-2010

2007 Taxable Pension Obligation Bonds' financial reports

October 31, 2003 staff report on *Stockton Event Center – Financial Summary*

August 26, 2008 staff report for *Agreement with the Government Finance Officers Association* for priority-driven budget process advisory services

September 11, 2008 GFOA report to Budget, Finance and Economic Development Council Committee on *Priority-Driven Budget Update*

September 19, 2008 draft Program list with PPG (Policy Priority Groups) Ranks

February 28, 2012 staff report to City Council regarding *Fiscal Condition Update for Fiscal years 2010-11, 2011-12 and 2012-13*

February 2012 report from *Management Partners* titled *City of Stockton Financial Condition Assessment*

Stockton City Council Resolutions No. 91-0017 and Resolution No.94-0607 pertaining to Council Committees

December 14, 2004 staff agenda report titled *Resolution: Authorize City Manager/Executive Director to Appropriate Funds from Designated Accounts of the Stockton Events Center Project and Revise the Guaranteed Maximum Price (GMP) for the Ballpark Stadium Component of the Project*
City Council Resolution No. 04-0836

City Council/Redevelopment Concurrent Meeting minutes for December 14, 2004

League of California Cities elected officials training programs offered in 2011 through 2013

California State Association of Counties elected officials training programs offered in 2011 through 2013

Survey results from Stockton City Council members and Mayor, and from San Joaquin County Board of Supervisors

Interviews Conducted

Current and former City consultants

Current and former City employees

Former members of the Stockton City Council

Discussion, Findings and Recommendations

1.0 Information Provided to the City Council

Timely, accurate, and easily understood information is crucial for elected council members and the public to review so they can understand the issues facing the city and to ensure prudent decisions are made. The 2005-2006 Grand Jury found that the then-City Manager repeatedly failed to provide information related to the Events Center to Council Members, which would have given an accurate picture of the true cost of the project. The current Grand Jury independently reviewed various documents and the sworn testimony of elected officials and city employees and reconfirmed that documentation was not presented to the City Council in a timely or clear manner. The Council agenda report for the December 14, 2004 meeting relating to the financing for the Events Center project was delivered after the balance of the agenda package reached the council. While there is no record of exactly when the report was delivered, the meeting minutes indicate two council members stated it was received the night before the meeting. That agenda item requested the budget for the Events Center project be increased from \$113,512,640 to a new total of \$115,384,299, an increase of \$1,871,659. (The original estimate for the entire project was \$67.1 million.) While this individual action increased the construction cost by less than 2%, the cumulative changes had increased the total cost by more than 70%. The action also authorized the then-city manager to approve change orders of up to 10 % (\$11.5 million) of the total project cost without prior City Council approval. The city manager indicated that the cost increase was primarily due to increased costs in steel and concrete, but deflected an inquiry into why the City Council had not been asked to approve design changes which were already being implemented.

From direct testimony, the Grand Jury learned that the design changes were conceived and implemented by the then-city manager and mayor without the required City Council approval. While the exact amount of the cost increase associated with the design change was not determined by the Grand Jury, testimony verified that not only was it significant, but that it was also contrary to the recommendations of the sport facility experts hired by the City. In addition, the design changes led to an increase in the management fees the City paid to operate the facilities. At the December 14, 2004 meeting the city manager failed to disclose this fact to the Council and it was kept from the public record. The Grand Jury notes that although the proposed agenda item at the December 14, 2004 meeting involved a major change in the Events Center project design and increase in cost, only one Council Member was recorded as asking questions of the city manager about the reasons for the changes and requesting additional supporting information.

The Grand Jury also learned from testimony that the former city manager would regularly delay providing council members with important background information related to other major financial decisions they were being requested to make. Budget documents were provided only a few days before Council discussions were held, requests for additional information were delayed until just before a vote was held, and independent analysis of bond documents was inadequate or not provided. Based on testimony and meeting minutes, when information was received, Council members who did ask questions about the fiscal impacts were at times ignored by the Mayor and/or removed from Council committees assigned to look at financial matters.

The former city manager proposed a number of transfers of funds between City accounts for the purpose of funding the Events Center project. Standard financial practice requires these inter-fund loans be accompanied with loan documents detailing such items as legal authority to make the loans, repayment requirements and interest charged. From documents and testimony the Grand Jury found that the loan documents were absent from agenda reports requesting the loan approvals and, of particular concern, there appeared to be no analysis of the impact on the City General Fund should the loan not be repaid. A similar finding about financial failures by management and council was reported by the 2005-2006 Grand Jury.

As a result of the limited information provided to the City Council and the failure by former management staff to respond to requests for information, witnesses testified that council members would often distrust the information presented to them by former city managers. While part of the problem may have been the result of the finance department's operating equipment, which is discussed later in this report, under testimony most witnesses perceived it was a result of the former city manager's manipulation of information.

Findings

F 1.1 The agenda reports for the Events Center project for the December 14, 2004 council meeting, and other major projects were presented to Council Members with inadequate time to review the complex issues. The same finding was disclosed in the 2005-2006 Grand Jury report *City of Stockton Redevelopment*.

F 1.2 Few Council Members asked questions of City staff about the City's financial condition or the financial impacts of major expenditures they were being asked to approve.

F 1.3 The City Council's approval of loans between restricted funds without receiving any information or documents on the repayment requirements or impacts created an unclear picture of the actual fund balances in the various accounts.

Recommendations

R 1.1 Information regarding major new and/or complex projects or programs that have an adverse impact on the City's financial condition be provided to the City Council members and public not less than 10 calendar days before the date of proposed Council actions to allow for a thorough review of materials and an opportunity for the Council Members and public to ask questions.

R 1.2 The City Council hold a study session at least quarterly to receive and discuss complex financial issues to include, but not be limited to, the City's financial condition, long-term impacts of past, current and proposed financial obligations of the City, major capital outlays and employee contracts. An opportunity for all members of the City Council and the public to ask questions is to be incorporated into the study session.

R 1.3 All proposals for the City Council to authorize inter-fund loans be accompanied with loan documents detailing obligations of the loan and any impacts on the City's General Fund.

2.0 Effectiveness of the City Auditor

The position of the City Auditor was created by a City Charter amendment in 1994 (Section 2.16). The position is appointed by, reports to, and serves at the pleasure of the City Council. Among the duties assigned to the City Auditor are:

Audit the books, accounts, money, and securities of departments and agencies of the City;
 Select and manage the outside audit firm;
 Determine the extent to which City department's assets are being accounted for;
 Report results of audits to the City Council and City Manager; and
 Perform such other auditing functions as may be assigned by the City Council.

All cities do not have an internal city auditor position. Some individuals with the title may be directly elected by the voters, appointed to the position, or serve in the internal auditor role as part of other duties. In 2006, the Government Finance Officers Association (GFOA) approved as a Best Practice the establishment of an internal Audit Function finding, stating that "...such a function can play an important role in helping management to maintain a comprehensive framework of internal controls." It also found that "Internal auditors can play a valuable role conducting performance audits, as well as special investigations and studies." The GFOA recommendation does not state a preference as to where the position is located in a city government structure, or who provides oversight, other than stating that interaction with the city's management staff is important.

In Stockton, only one person held the position of City Auditor from the time the position was created in 1994 until 2012. While the Grand Jury is not making a determination on this fact, it does question the possible lack of innovative thinking and broad expertise that a single person serving for such a period of time would offer to the City Council. Testimony from elected/ appointed city officials and consultants presented the view that the limited expertise in the City Auditor's Office may have prevented many detailed performance or financial audits of city departments/operations from being conducted. The few audits recalled by former elected officials as being helpful were in the areas of library fee collections, overtime approvals and concession fees. Overall, there appeared to be little support for the City Auditor from either elected or appointed officials. In September 2008, the GFOA conducted a study as part of a Council-approved review of a priority performance budgeting process. The study included all elected and top management officials and was designed to determine their internal prioritization of all government programs. The ranking order went from zero (lowest) to 30 (highest). The City Auditor's performance auditing function was ranked an overall seven. The City Auditor's revenue auditing function was ranked an overall zero.

The Grand Jury further found that the City Auditor did not have the oversight or the independence described in the City Charter. While the City Council and its Council Audit Committee were charged with oversight responsibilities, there is little indication that either exercised that role.

Testimony from prior elected officials, some of whom served on council audit committees, revealed they had little interaction with the City Auditor other than at presentations of the annual external audit. Few assignments were given to the City Auditor by the City Council as permitted under the Charter.

The City Council recently approved a City Manager recommendation that the City hire an outside firm to serve as City Auditor rather than hiring an individual for the position. The rationale given was that a firm would provide a broader scope and depth of expertise that the City could draw upon to study issues of concern to the City. Since this arrangement has just begun, the Grand Jury did not have an opportunity to review the arrangement or its effectiveness.

Findings

F 2.1.1 While the City Auditor is accountable only to the City Council under the City Charter, city managers influenced the Auditor's day-to-day operations through recommendations on the City Auditor's budget, thus limiting the Auditor's direct interaction with department heads.

F 2.1.2 The City Council showed little actual activity in fulfilling its obligations to oversee the City Auditor's office.

F 2.2.1 The City Auditor was instructed by a former city mayor and former city manager not to review the City's overall finances. The City Auditor did not at that time or since, conduct independent reviews of revenue or expenditure projections used for project and program funding.

F 2.2.2 Elected officials testified that the City Auditor was not assertive in conducting reviews and evaluations of city contracts, department programs, or the overall City financial condition, thus denying the City Council and public an independent review of financial implications of the city managers' recommendations.

F 2.2.3 The City Auditor did not conduct, nor did the City Council direct, a separate review of compliance with construction contracts related to the Events Center or the assumptions on which financial decisions for the project were made.

F 2.3 The recent practice of using a firm as the City Auditor gives the City Council more flexibility in directing what audits and studies are to be conducted since a wider field of expertise offered by the firm can be tapped to undertake the investigations.

Recommendations

R 2.1 The City Council adopt a concise policy by December 31, 2013 identifying the City Council's oversight obligations of the City Auditor, whether an individual or a firm, and the review process of the Auditor's findings and reports.

R2.2 The City Council adopt a policy by November 30, 2013 clarifying the types of audits and reports the City Auditor is to perform and when the audits are to be conducted and under whose direction they are to be undertaken.

R 2.3 For the next two years, the City contract with an outside firm with multiple areas of expertise to serve as City Auditor. The use of a firm (versus an individual), to serve as City Auditor to be evaluated as a distinct action item annually as part of the budget review and adoption process.

3.0 Effectiveness of the City's External Auditors

The City Charter (Article XIX, Section 1911) requires the City to have an independent financial audit performed by an outside certified public accounting firm to test the City's financial processes and safeguards and to confirm the year-end fund balances in the various City accounts. This audit is also a requirement for many federal funding programs and in contracts with municipal bond buyers. The City of Stockton has a Comprehensive Annual Financial Report (CAFR) prepared which includes, in addition to the review of accounts and fund balances, a review with recommendations on the financial operations and other statistical information. The External Auditor is selected through a proposal and interview process that is headed by the City Auditor and approved by the City Council. The previous audit contract was managed by the City Auditor who oversaw the work schedule, billing submittals and reports prepared.

The former External Audit firm was first hired by the City for the FY 2000-2001 audit and provided services in that role through the FY 2009-2010 audit. In each of those years the External Audit firm prepared a *Report to Management* which is required to identify any deficiencies or weaknesses in the City's financial operations and accounts, and to make recommendations to correct or eliminate them. The External Audit firm also identifies problems in the operations of the finance or related departments that should be addressed by management but do not have a major impact on the financial accounting statements. These include items such as backup of computer tapes, reconciliation schedules and training and staffing. When a problem rises to a higher level it becomes a *significant deficiency*. These include matters such as lack of review of accounting entries or not reconciling bank account/s balances with internal account amounts in a timely manner. The most critical of audit findings are *material weaknesses* and include instances where financial information has been omitted or recorded in a manner that significantly impacts the City's account balances.

As part of this investigation the Grand Jury reviewed the management letters in the CAFR reports for the fiscal years 2004-05 through 2009-10. While there were a number of minor recommendations made in each of these years, mostly related to the City's computer system and Finance Department employee training, no major problems were identified during the first four years reviewed. While the individual audit recommendations were not significant, the cumulative effect of the problems identified was an indication of a financial system that was not adequate for the City's increasingly complex fiscal situation.

For the Fiscal Year ending June 30, 2009, one *material weakness* was reported (omission of financial transactions involving the City's long-term liabilities); and one *significant deficiency* was reported (the understaffed finance department was unable to prepare proper financial statements). In the following year's audit report there was one *material weakness* finding (omission of financial transactions related to accounts receivable and revenues in the City's Library Fund); and two *significant deficiencies* were reported (a lack of timely cash reconciliations, and differences, in the amount of approximately \$1.3 million, in the value of loan advances to property owners recorded by the third party administrator of the loan and the City's general ledger value of the loans).

As a comparison the final CAFR for the FY 2010-2011 audit, which was prepared by the City's new External Auditors, they reported 30 material findings of which 13 were identified as *material weaknesses*. This substantial increase in the number of major problems identified by the new External Auditors raises significant questions about the adequacy of the prior external auditor's examination of the City's financial statements and operations. Further, from testimony it was revealed that prior City management was aware of weaknesses in financial operations, yet did not appear to take proactive steps with the external auditors, or independently, to resolve the problems.

Another concern about these investigative findings is that it appears the City did not take appropriate steps to correct all of the problems that were identified. A number of the minor recommendations made by the former audit firm were repeated year after year. While mentioned in subsequent reports, they were not emphasized by the External Auditors to the Council Audit Committee.

Testimony from a number of City employees indicated that a complacency had developed between employees of the External Auditor and City Finance Department employees. The same auditors and employees worked on the audit review and report year after year. The City Auditor, charged with the management of the audit contract, provided very little oversight of the audit's preparation. Even with issues being raised about inter-fund loans and inaccurate fund transfers and account balances, the External Auditors did not raise any concerns to a *significant deficiency* level. In addition, the cumulative effect of years of failures in the City's accounting activity was not raised to a higher level of concern by the former External Auditors. Not until a new on-site manager was assigned by the former audit firm, was the level of concern raised. This contributed to the delay in the preparation of the CAFR for the Fiscal year ending June 30, 2011 because of major problems in reconciling funds and accounts.

Findings

F 3.1 The long-term nature of the contract with the former External Auditor firm may have been a major cause of complacency by both the auditors and City staff. The friendliness between the auditors and finance staff undermines the integrity and objectivity regarding the thoroughness of the audit process.

F 3.2 The City Auditor did not manage the external audit process in an effective manner to determine if a full independent review of the accounting processes was being conducted.

F 3.3 The final audit for the fiscal year ending June 30, 2011 indicated there had been major deficiencies and material errors in the prior financial accounting records and procedures, which the prior external audit firm failed to identify and emphasize in their reports.

F 3.4 Concerns raised by the former External Auditors were repeated in subsequent Reports to Management indicating a lack of accountability before implementation of the City's action plan response by prior city management.

Recommendations

R 3.1 The City Council adopt a policy no later than November 1, 2013 that stipulates all contracts for external audit services, including the preparation of the CAFR, be awarded for three year terms, with a maximum of two one- year extensions.

R 3.2 Effective with the current external audit contract, the City require the audit firm to regularly rotate audit supervisors to provide fresh perspective on the City's financial accounts and operations, and to establish an arms-length professional relationship between the audits and City staff.

R 3.3.1 No later than September 30, 2013 the City Council annually select a qualified individual or firm to provide an independent review of the external audit's Letter to Management and city management's response to include a report of findings to the City Council.

R 3.3.2 Following the completion of the FY 2012-13 audit, the Chief Financial Officer and the City Manager provide the City Council with quarterly status reports describing actions that had been taken to address all recommendations, deficiencies and material weaknesses identified in the CAFR.

4.0 City Finance Department's Operations

The City's Finance Department is responsible for maintaining all of the City's funds and accounts in a manner consistent with law, regulations and accounting standards required by the Governmental Accounting Standards Board (GASB). The department manages cash flow, maintains accounts payable and receivable for all City departments, prepares payrolls, prepares billings for city services, makes purchases for the City's departments, prepares financial analysis and projections, prepares reports required by State and Federal laws and monitors expenditures versus budget appropriations. For FY 2005-2006 the department was authorized to have 56 employees to operate all of these financial functions.

The City of Stockton's financial system is very complex with over 200 funds and thousands of accounts. The size of the City and its full range of services require an expansive accounting system.

Various State and Federal laws and regulations, and generally accepted accounting principles, require different sources of revenues to be placed into separate funds to accurately account for receipts and expenditures. They also require individual activities or programs to be recorded separately, resulting in the large number of accounts. Management of these complex operations requires trained and qualified staff and technology capable of handling the data.

Testimony has indicated that the City's financial accounting software and computer hardware are over 20 years old. The computer screens operate off a DOS screen, a technology that became obsolete about 20 years ago. The inability to manage and extract information makes it difficult to prepare timely financial reports in a format that is easily understood by elected officials and the public. Staff training was also noted as a concern by witnesses. There was a noted lack of individuals with advance training or specific accounting skills which would enable them to maintain accurate reconciliations, post accounts and properly account for the various inter-fund transfers being directed by the prior city management. In its Report to Management for the Fiscal year ending June 30, 2006, the former External Audit firm noted that the City's financial reporting requirements were becoming increasingly complex. The authors stated "...we noted that there appears to be a lack of adequate training of new staff accountants within the accounting unit." They also reported "The insufficient training of new accounting staff results in various inefficiencies." An additional impact on the finance staff was the reduction in the number of employees at the same time as other city department's faced staffing reductions. Compounding the staff reduction was a high turnover among Finance Department staff either through retirement or transfer to other departments, requiring new employees without the experience in the City's accounting procedures to take on responsibility and increasing workloads.

The cumulative impact of the conditions in the Finance Department was the lack of timely, accurate information being provided to the City Council and department managers. With reconciliations and fund balances being in question, and the number of internal transfers being implemented during the prior city government, the City was working with a distorted and inaccurate understanding of its financial condition.

Findings

F 4.1.1 The Finance Department under the prior city government did not provide other City departments with timely or accurate information regarding financial status of expenditures versus budget appropriations.

F 4.1.2 Using the cumbersome and outdated financial software, few detailed financial reports have been prepared for the City Council because of the difficulty in extracting and arranging data in a meaningful manner.

F 4.2 Recommendations have been provided to the Stockton Civil Service Commission to upgrade selected staffing classifications and qualifications in the Finance Department; a CPA has recently been hired to augment the finance department's management. Additional classification reviews are needed to improve the overall qualifications and accounting capabilities of the department's employees.

F 4.3 The complexity of City funds and accounts permitted prior city governments to move money among accounts without adequate tracking or knowledge of actual balances in the funds.

Recommendations

R 4.1 No later than December 31, 2013, the City Council approve a study for an approach to replace or upgrade the finance operation's computer and software to current technology standards, and to develop a plan under the Direction of the City Manager and Chief Financial Officer to implement such a change.

R 4.2.1 No later than December 30, 2013, the City's Chief Financial Officer conduct a comprehensive review of the education and experience requirements of all classifications within the Finance Department and submit recommendation to the Civil Services Commission for approval of the changes.

R 4.2.2 No later than December 30, 2013, the City's Chief Financial Officer and City Manager prepare a training program with measurable outcomes for all Finance Department staff to improve their general finance and accounting skills and to provide for increased responsibility.

R 4.3 Prior to the Fiscal Year 2014-2015 budget preparation the Chief Financial Officer, with assistance from the City Auditor and External Auditors, review the City's Chart of Accounts and submit recommendations to the City Council on revisions to simplify the fund and account structure for more control and accountability.

5.0 City Budget

The City Council adopts an annual budget prepared by the City Manager to provide a policy statement of the City's priorities for its limited financial resources. The document also projects the amount of revenues the City anticipates receiving during the fiscal year and appropriates funds for the various departments, capital improvements and other City financial obligations. A city manager during the prior city government moved the responsibility for preparation of the budget from the Finance Department and placed it in the City Manager's office. Prior to the current fiscal year, the current City Manager returned the budget function to the Finance Department.

Essential to the preparation of a reliable budget as a policy and operations document are accurate and comprehensive projections of the City's revenues and operating expenditures for the next and subsequent fiscal years.

Under the prior city government, comprehensive long-term projections of revenues and expenditures were not prepared by the Finance Department, but rather by the budget office in the City Manager's office. There was testimony from a number of witnesses that under the prior city government, the budget office and the finance department did not work together in verifying information while preparing the budget. Examples were given showing how the budget office under the City manager would manipulate information and costs for the sole purpose of presenting a balanced budget, knowing that the budget would be out of balance on adoption. These included arbitrarily reducing the costs for internal services charged to the departments to make the department's operating costs appear to be less than actual. Also, particular department overtime costs were budgeted at numbers that were known to be below what the actual costs would be during the fiscal year making overall expenditures appear to be less. Further, the complexity of the City's account structure allowed inter-fund loans to be included in the budget for approval without clearly indicating the implications of the loans to the City Council and public.

In 2008, the City Council approved a study to be conducted by the GFOA to review a procedure which bases budget appropriations on City Council's priorities and identified goals: A final study was not adopted by the City. To the Grand Jury's knowledge, the City had not undertaken a process of identifying long-term goals and priorities for appropriations, nor key performance indicators (KPI) to determine if those goals and priorities were being met by the departments.

The Grand Jury was also concerned about how well budget appropriations were managed by the department heads. A number of witnesses indicated that there were differences among department managers regarding their capabilities to stay within budget. Most were very effective and varied from appropriations only when extraordinary circumstances arose. A few took what appeared to be little interest in staying within budget, relying on their perceived political clout to cover any over expenditures that might occur, even when they could have easily controlled the cost. A hindrance for all department managers, as well as for the city manager in providing financial oversight, was the difficulty in obtaining timely and accurate information for their department's expenditure/appropriation comparison. The limitations of the Finance Department's financial software and computer hardware, previously discussed in this report, made it difficult to provide that fiscal management tool. Despite the limitations of the financial operations and the abilities of the department managers, the City Manager retained the fiscal oversight to keep expenditures within authorized appropriations.

The current City Manager has reorganized the budget function placing it back in the Finance Department where close coordination between the financial information and the budget estimates is more feasible. Testimony indicated more reliable and accurate budget assumptions will result from the inter-function communications.

Findings

F 5.1.1 A director's management of his/her department's budget relies on timely and accurate information on expenditures versus budgeted amounts. Failure to have the information available to the directors reduces their ability to be financially accountable.

F5.1.2 A City Manager requires timely and accurate financial information to provide oversight and control of expenditures versus appropriations, which was not readily available in the past.

F 5.2 An identification of key performance indicators had not been clearly presented by the City Council to the public.

F 5.3 Past City Councils were not kept informed of the extent to which departments were or were not adhering to their budget appropriation limits, or about the City's overall financial health.

Recommendations

R 5.1 Department heads be held accountable by the City Manager to stay within Council's budget appropriations, with quarterly public reports prepared identifying and explaining all significant deviations.

R 5.2 A public discussion and subsequent development of key performance indicators by the City Council with assistance from the City Manager, Chief Financial Officer and City Auditor, be completed prior to February 2014.

R 5.3 Beginning with the Fiscal Year 2013-14 the City Manager and Chief Financial Officer provide the City Council a review of the budget expenditures at least quarterly, with a mid-year Council workshop to review the budget status in detail. When the key performance indicators have been established, they are to be included in the reviews. The requirement for these reports to be adopted as a City Council policy.

6.0 City Council Budget and Audit Committees

In 1981, the City Council passed Resolution No. 38,402 adopting Council Policy No. 100-4 which established procedures for the Mayor to make appointments to the Council Committees with the City Council's concurrence. The Policy was subsequently amended 14 times, most recently on February 2, 2010. The current Policy calls for five Council Standing Committees and four Special Committees with three members each serving two year terms. The five Standing Committees are:

- Budget/Finance/Economic Development Committee,
- Legislation/Environmental Committee,
- Community Improvement and Crime Prevention Committee,
- Water Committee, and,
- Audit Committee.

Of note to this report, the Audit Committee was established as a Standing Committee in 1994 with adoption of Resolution No. 94-0607; 13 years after the other council committee were first established.

The purpose of the Committees "... shall be to provide detailed analysis and study matters, including obtaining public input, which are referred to the Committee..." (Council Policy No. 100-4). All committees are required to hold open, noticed public meetings, unless the topic falls under State law allowing for a closed session meeting.

The Budget/Finance/Economic Development Committee (Budget Committee) is charged to "...review the City's fiscal policies and documents, review proposed amendments to City fees, develop new fiscal mechanisms needed, and develop and review policies and activities relating to the economic health of the community..." (Council Policy No. 100-4, Section IV(A)). This included the Committee's review and report on the proposed annual budget. The Audit Committee is charged with the responsibility to "... oversee all independent auditing services for the City provided by both the City Auditor and the City's commercial auditing firm..."(Council Policy No. 100-4 , Section IV(E)).

Based on testimony received, mayors in the prior city government would make appointments to the Budget Committee based on who would not ask probing questions about major projects underway or their funding. When members of the Budget Committee asked questions about the financial information provided by City management, former mayors would suspend the Committee. By one testimony, the budget review function in 2009 was placed before the City Council as a whole because of the complexity and importance of the financial matters being presented by staff and to allow all council members to hear the information and ask questions at one time. Other testimony indicated the change was done for political purposes.

Findings

F 6.1 Testimony from both elected and appointed City officials indicated the Audit Committee provided limited oversight of the City Auditor's function. Presentations on the annual financial audit were not detailed, and no witness recalled the Committee making inquiries into the External Auditor's results, findings or recommendations.

F 6.2 Appointment to and removal from the Budget Committee by the prior city government had been based on political alliance rather than interest or knowledge of the City's fiscal activities, limiting the inquiries into the former management's activities.

Recommendations

R 6.1.1 No later than November 1, 2013 the City Council amend Council Policy No. 100-4 to create a single Finance Committee to replace the current budget and audit committees, to allow the new Committee's involvement with the FY 2012-13 CAFR review and the FY 2014-15 budget adoption. The purpose of the new Standing Committee would be to review in detail and make comprehensive recommendations to the whole City Council on financial matters including, but not limited to, those related to the City's budget; internal and external auditor reports; proposed bonds or loans; any proposed fee or tax increases or modifications; and modifications to the City's account and/or budget structures. The Committee should meet no less than quarterly.

R 6.1.2 Prior to December 1, 2013 the City Council review and amend as necessary the stated purpose of all Standing Committees established in Council Policy 100-4 and provide clear specifications of the committees' scope of activity, in particular minimum effective oversight responsibilities.

R 6.2 By November 1, 2013 the City Council amend Council Policy 100-4 to set defined staggered and rotating two-year terms on the Finance Committee in order to bring fresh perspective to the committee's deliberations and to provide an opportunity for more council members to serve.

7.0 Financial Training for City Council Members

Municipal finance can be very complicated and difficult to understand by individuals who lack specialized education or experience. The many nuances mandated by state and federal laws and regulations for accounting, budgeting and reporting financial operations can be daunting for a citizen facing the information for the first time. These include requirements for maintaining separate funds for each revenue source, including each grant; separate accounts of each activity performed by the city; and distinguishing between general funds which do not have restrictions on their use and restricted or revenue funds which can only be used for specific purposes. There are no national standards or recommendations related to what elected officials should know about municipal finance, but the Grand Jury wondered if the City's elected officials were concerned about their level of knowledge.

The Grand Jury requested information from all current members of the City Council regarding their individual training about municipal government finance, asking specifically if such training is necessary, and who should provide that training. Responses were received from four of the seven City Council members. The same information was also requested from members of the San Joaquin County Board of Supervisors to learn the perspective of other elected officials. It was also helpful that two of the five Supervisors had previously served on the Stockton City Council.

Information received from two of the four recently elected members of the Stockton City Council revealed that one member had taken several university continuing education courses related to municipal government finance and local government law prior to being elected to the City Council. The other respondent stated that prior to being elected he/she had not taken courses specifically focused on municipal finance, but had taken courses at a university that included business and finance, and felt that this knowledge was helpful in preparation for dealing with financial issues. Since their election both respondents have attended the League of California Cities (LCC) New Council Member's Orientation as well as receiving general training from the City's management team. These two newly elected respondents agreed that individuals running for local government positions have the responsibility for being familiar with local finance, and that the responsibility for gaining that type of education rests with the elected members with the assistance of city staff. They further indicated that they would be seeking additional training as it becomes available.

The Grand Jury received information from two of the three incumbent members of the Stockton City Council, which revealed that while neither of them received training through university-type courses prior to running for election, they did receive training on municipal finance either through community-based experts, or through participation on other elected governmental bodies. Since their initial election, and similar to their recently elected colleagues, both have attended the LCC New Council Member's Orientation, as well as receiving assistance from the City's management team. One of the two incumbent respondents clearly stated the responsibility for being familiar with municipal finance rest with the one seeking elected office, and that it is further necessary that all elected members ensure through continuing education, that they are kept abreast of any changes in financial requirements. The other incumbent respondent felt that gaining knowledge relating to municipal finance was a joint responsibility of the elected official and the City management team. Responding to the question of who should provide training in municipal government finance issues to elected officials, one respondent answered "by persons knowledgeable in the subject area." The other respondent indicated his/her belief that the training should be provided by the *Good Government Committee* (a locally based program in partnership with the University of the Pacific which brings together local experts in the fields of Land Use, Water, Public Safety, Education, County/Regional Demographics, Economic Development, Municipal Finance, and Labor Relations).

All five members of the San Joaquin County Board of Supervisors, consisting of four incumbents and one newly elected member, responded to the Grand Jury's survey. Prior to their election to the Board, two of the five Supervisors had taken university-level courses covering business financing and economics, while the remainder gained their financial experience from serving with, or being on other elected governmental bodies. In addition, all respondents felt that it was the individual's responsibility to gain the appropriate education about government finance, as well as other subject matters, to assist in fulfilling their responsibilities to their constituents. Four of the five respondents have attended the *New Supervisor Training Program* provided through the California State Association of Counties (CSAC), which is offered as a primer for newly elected Supervisors. All respondents also relied on assistance from the Administrators throughout the County Departments, as well as educational conferences to assist them in continuing efforts to understanding the financial issues that come before them.

The LCC offers a two and one-half day academy for newly elected city mayors and council members. In 2011, the LCC offered a two-hour fifteen-minute program on city financial audits. In 2012 and 2013 a two and one-half-hour program titled "Financial Responsibilities, City Revenues Workshop" was offered to inform new local officials about the varied aspects of local government finance. The 2011 LCC annual conference provided a number of sessions on municipal finance while the 2012 annual conference had no sessions related to general municipal finance. In general, the LCC, California's principal advocate for local elected officials, does not provide in-depth training programs in municipal finance or audits for local elected officials to be informed of the related laws, requirements and best practices.

As a comparison, from 2011 through early 2013, CSAC offered 12 courses related to local finance through its CSAC Institute for Excellence in County Government. Each course is five-and-one-half hours in length. Also, during each of the last two CSAC New Supervisors Institute Programs, two 75-minute presentations about county budgets were offered.

From testimony received, many of the City's elected officials relied on the city management staff to provide them with information about municipal finance. Most training opportunities focused on a particular action the Council was being requested to take, and at the time the action was to be taken. This included the bond issues for capital projects, inter-fund transfers or special assessments. There were no indications provided that any of the training was about municipal finance in general.

Findings

F 7.1 The degree of training and knowledge about municipal finance varies among the current council members who responded to the Grand Jury's survey.

F 7.2 The current City Manager and CFO provide training on financial matters as they relate to issues being presented to the city council.

F7.3 The lack of knowledge about municipal finance resulted in some council members not having the ability to ask questions or understand the financial information presented to them.

Recommendations

R 7.1 The City Council submit a policy resolution for consideration during the LCC annual conference for the League to establish training programs for local elected officials to learn about the various aspects of municipal finance similar to the depth and content of the CSAC courses.

R 7.2 The City Manager and CFO develop a workshop for elected officials on municipal finance operations, structure, responsibilities and oversight drawing upon best practices developed by other cities and professional organizations (with the assistance from local educational institutions). The workshop shall be available to all newly elected members of the City Council during the period between when election results are known and the members assume office.

R 7.3 No later than January 2014 the City Manager and CFO present bi-monthly workshops to educate elected city officials about the various operations and responsibilities of Stockton's financial operations.

8.0 Council and Manager Responsibilities and Oversight

Under the City Charter the Mayor and Council, as a single body, have oversight responsibilities of the city manager. The better responsibilities and limitations of authority of each are understood, the better the public is served. In its investigation, the Grand Jury found that power was placed in one or two individuals, without effective checks and balances, resulting in some of the problems leading to Stockton's current financial situation. Without due diligence by all parties of city government and the public, those conditions could return exacerbating the City's current fiscal predicament and limiting its future potential.

The Grand Jury found, through testimony and review of documents, situations where elected and appointed leaders acted more for political advantages than for the benefit of the City. A prior city manager and mayor made major modifications of the design of the ballpark and arena without discussion by the entire City Council or public disclosure, and contrary to experts' advice, resulting in significant increased construction and operational costs. Testimony disclosed that both officials appeared to be on an ego trip. To avoid full disclosure, a prior city manager was given authority to negotiate contracts and approve construction change orders beyond the scope approved in the City Charter, and which resulted in actions that were not in the City's best interest. A former mayor would marginalize any council member questioning or opposing the mayor's desired programs, and sought to limit public discussion of important financial matters.

During the prior city government, many of the council members contributed to the veil of secrecy that was covering the city's operations. They would not question information or recommendations presented by prior city management, even when contradictory evidence was presented about the financial impacts of their actions. Review of Council meeting minutes during much of the Events Center project indicated approvals, questions and discussion was limited to a very few council members. Actions regarding movement of money between funds, granting of extraordinary authority to an individual, or approval of employee contracts with long-term fiscal impacts occurred with little detailed information or public discussion. Political expediency became more important than good governance, especially as elections drew near.

Findings

F 8.1 The behind the scenes actions and lack of complete and clear information from former city managers resulted in elected officials and the public having a false sense of confidence in the City's financial condition.

F 8.2 Failure of prior City Council Members to request information about or to question actions by city managers and mayors raises concerns of whether actions were taken for the City's benefit or for personal/political gain.

Recommendations

R 8.1 The City Manager and his/her administrative staff provide detailed, timely, and accurate information supporting proposals with significant long-term financial implications for the City and that such documents be available to the public.

R 8.2 Beginning immediately, ensure any proposals by the Council Members and the Mayor with long-term financial implications for the City be openly disclosed, explained and discussed for public review.

Conclusion

History has shown that when ego takes the place of responsibility, when personal agendas replace actions for the public good, or when silence replaces the community voice, the public is not well served. A Mayor and City Council that prefers to not ask questions or demand complete and accurate information from its management, or to remain uneducated about the intricacies of the city's financial structure and operations can be more easily swayed by staff recommendations that are not in the public's best interest. This observation is not new. It has been brought to the community's attention by past Grand Juries.

The 2012-2013 Grand Jury understands and appreciates the actions taken by recent council members and city managers to get Stockton out of its financial hole. It has not been easy and many parties to the problem have suffered grave personal loss. However, the Grand Jury also expresses its concern that without changes to how things were done in the past when reviewing and approving major actions with long-term fiscal impacts (and without improvements to the City's elected and appointed officials' ability to understand, operate and evaluate its financial health in an accurate and timely manner), this fiscal calamity could recur. The Grand Jury reminds the public that *"Those who ignore history are doomed to repeat it."*

Disclaimer

Grand Jury reports are based on documentary evidence and the testimony of sworn or admonished witnesses, not on conjecture or opinion. However, the Grand Jury is precluded by law from disclosing such evidence except upon specific approval of the Presiding Judge of the Superior Court, or another judge appointed by the Presiding Judge (Penal Code Sections 911, 924.1(a) and 929). Similarly, the Grand Jury is precluded by law from disclosing the identity of witnesses except upon an order of the court for narrowly defined purposes (Penal Code Sections 924.2 and 929).

Response Requirements

California Penal Code sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of San Joaquin County Superior Court (within 90 days).

The City of Stockton is required to respond to each Finding and Recommendation contained in this Report.

Mail or hand-deliver a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
P. O. Box 201022
Stockton, CA 95201

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at

grandjury@sjcourts.org.

August 13, 2013

Presiding Judge
San Joaquin Superior Court
222 East Weber Avenue
Stockton, CA 95202

CITY OF STOCKTON RESPONSE
2012-13 CASE NO. 0312 - GETTING RID OF STUFF – IMPROVING DISPOSAL OF
CITY AND COUNTY SURPLUS ASSETS

In accordance with Sections 933 and 933.05 of the California Penal Code, the City Council of the City of Stockton responds to the Grand Jury Report on the above-referenced case as follows:

FINDINGS

F 6.1 Correspondence between the City and the State Department of Justice in October 2011 indicated that the State's contract agreement with private auction firms might be terminated because of state budget cuts. There was no indication if the matter has been resolved. Since the state agreement is comprehensive and benefits the City, an alternative agreement should be available for the City's use.

***Response:** The respondent agrees with the finding. Corrective action is being taken as described in the response to recommendation 6.1.*

F 6.2 Stockton Code Section 3.60.010 requires the City Manager to present the City Council a report on personal property sales valued under \$20,000. There is no indication whether the report is to be a public document. A written response from the City indicated that in the past the information was included in a weekly newsletter provided to the City Council. No surplus property sales took place between 2008 and 2010; however, a sale that occurred in 2011 was not reported as required by Municipal Code. The City indicated they were in the process of updating their surplus property sales procedures.

Response: *The respondent agrees with the finding. The City held three auction sales of properties in 2011. After the City's newsletter was terminated due to staffing cuts, staff did not pursue an alternative reporting mechanism. However, these 2011 sales will be reported to Council by October 31, 2013. Appropriate personnel actions were taken with staff following this incident.*

While this correction will satisfy the immediate reporting requirement, at this time the City of Stockton does not have well-developed implementation guidelines to define "personal property", "value", "e-Waste" and other key terms and procedures in interpreting the code and intent of the law. In addition, the City does not have a well-developed process and reporting schedule for the sale of surplus property. Corrective action is being taken as described in the response to recommendation 6.2.

RECOMMENDATIONS

R 6.1 The City Council direct the City Attorney to prepare no later than November 1, 2013, a comprehensive auction agreement for use by the City.

Response: *The respondent agrees that the auction services that were previously used were through a state contract which is no longer supported by the state and is expired. However, due to economic conditions and limited staffing resources there were only 3 sales in the last 5 years, all of which occurred in 2011, before the state contract expired. The City is in the process of developing internal policies and procedures for the sale of surplus property and will be soliciting bids and evaluating other agency cooperative agreements for a replacement auction firm. This will be completed prior to November 1, 2013.*

R 6.2 Effective immediately the City Manager's report on surplus personal property sales pursuant to Municipal Code Sec. 3.60.010 be prepared as a public document presented at a regular City Council meeting.

Response: *The respondent agrees that these sales were not reported to City Council, as defined by the Stockton Municipal Code. The city has developed an action plan to improve the internal controls over sale of surplus property and reporting of surplus sales as well as to improve operating efficiencies. By no later than December 31, 2013 the Administrative Services Department will:*

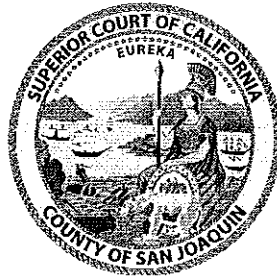
- *Develop an administrative directive that will clarify the definitions associated with surplus property.*

- *Develop definitions and guidelines specific to eWaste.*
- *Establish a reporting mechanism for sale of surplus property of less than \$20,000 that identifies surplus items sold, upcoming auctions and the City's corresponding and governing policies and directives. For efficiency purposes this will likely be done through the City's website rather than presented at a City Council meeting.*
- *Define a reporting structure for all decentralized surplus property sales, such as those sold by the Police Department or Economic Development Department, Real Property Division, so that all sales of surplus property are reported to the Purchasing Division.*

BOB DEIS
CITY MANAGER

BD:VB

San Joaquin County Grand Jury

**RECEIVED**

JUN 03 2013

CITY MANAGER
CITY OF STOCKTON

**Getting Rid of Stuff - Improving Disposal of City and County
Surplus Public Assets
2012-2013 Case No. 0312**

Summary

Cities and counties are authorized to purchase capital assets such as land, vehicles and equipment in order to function efficiently. When public land, buildings, vehicles or equipment are no longer needed by the local government, the governing bodies are responsible for being good stewards of the public's capital assets and getting the best possible return of public funds. Within the cities of Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton and Tracy and San Joaquin County there are different degrees of control over the disposition of their assets, as well as the extent to which the process is made known to the public. Some public entities are very conscientious, others less so. In an effort to promote public transparency and consistency while disposing of the capital assets, the 2012-2013 San Joaquin County Grand Jury (Grand Jury) recommends procedures be adopted by the local governments that are clear, consistent and provide to the public relevant information on the disposal process and results.

Glossary

Brown Act	The Ralph M. Brown Act (Government Code Sections 54950 <i>et seq.</i>) regulating the conduct of public meetings and related public information.
Capital Asset	Land, buildings, vehicles and major equipment (e.g., generators, pumps) having a multi-year useful life.
<i>et seq.</i>	To include sections that immediately follow the identified section and pertaining to the same topic.

Fiscal Year (FY)	Local government budget year beginning on July 1 and ending on the following June 30.
California Government Code Section 37350	Authorizes a city to dispose of real and personal property for the common benefit.
California Government Code Section 54222	Requires local governments to contact parks departments, affordable housing developers, school districts and other agencies about available surplus land that could be used for housing or recreation purposes prior to sale of the land.
California Government Code Section 65402	Requires proof of compliance with a local government's General Plan and approval by the local planning agency before disposal of land, unless previously exempted by the legislative body.
General Plan	A land-use document describing the proposed overall development for a city or county.
Indemnification	A legal protection by one party against a loss or liability that might be suffered by another party.
Negotiated Sale	Direct discussions between a government and a private entity about the terms and conditions of sale of a capital asset, including price.
Personal Property	Assets that are not real property, including office equipment, furnishings, etc.
Real Property	Land and buildings.
Surplus Property	<i>Capital assets</i> that are no longer needed or useable.

Background

Local governments (cities and counties) are authorized under State law to acquire real property, vehicles, equipment and other assets through various means including direct purchase, negotiations with the seller, dedication from an individual or entity, and receipt as a gift. Once in possession by the government agency, they become public property held for the common good of the community. These items are referred to by different names by the different local governments. They can be referred to as personal property, fixed assets, capital assets, personal property or commodities. For the purpose of the Grand Jury's investigation, the term used to include all these items is *capital assets*.

After a period of time the vehicles and equipment become obsolete, are no longer able to operate, or are just no longer needed by the local government. State law, under Government Code Section 37350, authorizes the local government to dispose of real and personal property when it is in the common good. The law does not state how the disposal of surplus property is to take place, leaving it to the local jurisdiction to make a determination. Among the methods most commonly used by local governments in California include sales at auctions by public or sealed bids, conducted either by the local government or under contract with a private auction firm, trade-ins or sale as scrap metal. Increasingly, the use of private on-line sale agencies or sales on eBay is becoming an acceptable practice. The underlying principle has been to ensure local governments receive the highest value for the surplus assets.

The sale of land is covered under separate sections of State law, including Government Code Section 54220 *et seq.* and Section 65402. Section 54222 establishes the State policy whereby any public land no longer needed by a city or county first be offered for use as: Recreational facilities, school facilities, affordable housing development or for enterprise zone projects. An offer to sell or lease the land must be made in writing to park or recreation agencies, school districts, affordable housing developers, and nonprofit neighborhood enterprise associations. The entities have 40 days in which to provide a written response to the city or county accepting or rejecting the offer. Government Code Section 65402 requires local governments to determine that the potential use of surplus land conforms to the jurisdiction's General Plan before disposal occurs. While not separately designated in State law, the sale of buildings is generally handled in the same manner as land since sales of buildings almost always include the land under the building.

Beyond the general requirements in the Government Code, each local government is allowed to establish specific disposition procedures. Requiring an independent appraisal of the land and buildings before sale, negotiating a sale or conducting a sealed bid sale, trading land or donating land are all decisions to be made by the local legislative body. Some procedures bring more public disclosure and transparency than others. Sealed bids bring assurance that all potential buyers are treated equally, and the best possible value is received for the property. Negotiated sales, depending on the information released, may lead to questions of whether the full public benefit has been received for the land. The Brown Act does permit negotiations for the sale of surplus land to be conducted by the legislative body in closed session with only the final action occurring in public. The amount of information disclosed to the public depends on the legislative body.

Issues

This investigation into the disposition of local government's surplus public assets was initiated by the Grand Jury. The State Legislature's recent disbanding of redevelopment agencies in the State and the accompanying requirement that all capital assets of the redevelopment agencies be disposed of raised the question regarding how local governments were handling such disposals and whether clear, formal, and identifiable procedures were being used. To provide a broader review of surplus property disposal procedures, the scope of the investigation was expanded to include the County government and all cities within the County.

Method of Investigation

The Grand Jury requested information through a survey from San Joaquin County and the cities of Escalon, Lathrop, Lodi, Manteca, Ripon, Stockton and Tracy regarding their procedures for disposing of land, buildings, vehicles and major equipment. Specific information on the number of sales of land, buildings, vehicles and equipment completed from 2007 to 2012 was also requested. After the initial responses were received from all of the local governments, additional information was requested with a questionnaire regarding the most recent sales. This was to obtain more details on the actions taken to determine if sales were in the public interest, transparent, and void of any appearance of conflict or favoritism. The Grand Jury also reviewed State laws, local ordinances and policy/procedure manuals related to disposal of assets. One interview with a city official was also conducted.

Discussion, Findings and Recommendations

City of Escalon

The City of Escalon indicates that it relies on Government Code Sections 35370 and 54220 *et seq.* as its authority for disposal of major capital assets. There are no specific sections in its Municipal Code or any policy or procedures manuals outlining who has authority to dispose of the assets or the methods to be used. Response to the Grand Jury's survey indicated that from 2007 to 2012 the city disposed of one parcel of surplus land through a negotiated sale, three disposals of vehicles and one disposal of equipment through a contract with a public auction firm. The City Council did take a public action to declare the vehicles as surplus and authorized their disposal.

Findings

F1.1 The City of Escalon has no adopted Municipal Code provision, policy or procedure related to the disposal of major capital assets stating who has authority, the methods to follow or the reporting requirements.

F1.2 The contractual agreement with the private auction firm hired by the City was a form provided by the company containing very limited information such as protection for the City and fees to be paid.

F1.3 The disposal of land was by negotiated sale, with all discussions held in closed session. Only the minimum information required by the Brown Act was disclosed on the Agenda.

F1.4 No information on the details of the land sale was provided to the public prior to the City Council's public action.

Recommendations

R1.1 Prior to December 2013 the City Council adopt either an ordinance or a policy detailing procedures to be used for the disposal of surplus capital assets, including who is responsible for the disposal, when City Council approval is required, notification requirements, what information is made available to the public and how such information it is to be presented.

R1.2 No later than September 30, 2013, the City adopt a contract document to be used for all sales of surplus vehicles and equipment that provides a clear indication of the fee to be paid the selling firm, protections for the City against claims resulting from the auction, liabilities and responsibilities of all parties and other legal protections of the City's interests.

R1.3 After each sale of vehicles or equipment the City manager is to provide a summary of the sale through a public document.

R1.4 No later than September 30, 2013, the City adopt a policy for disposition of surplus land and buildings to include when appraisals are to be conducted, the procedures for compliance with Government Code Section 54220 *et seq.*, and a prior public disclosure of the proposed sale.

R1.5 Before any future disposal of land or buildings is finalized, a report is provided to the City Council in open session that includes the purpose of the sale; evidence of compliance with applicable State laws; the full identity of the purchaser; the total sale price; and, if the sale price is less than the appraised value, the reason for the difference.

City of Lathrop

The City of Lathrop's Municipal Code Section 2.36.040 designates a Purchasing Officer, who is the city manager or designee, to dispose of city property designated as surplus. Council Resolution 02-1231 establishes a policy for the disposition of surplus property including value levels at which the purchasing officer is authorized to sell the property and when council action is required. A request for council action must be included in a staff report to council listing the property to be designated as surplus and sold at an approved auction. A council resolution is required for the approval.

Response to the Grand Jury's survey indicated that from 2007 to 2012 the City had no disposal of surplus land or buildings and that there was one sale of surplus vehicles. The City has a detailed *Agreement to provide Surplus Inventory Auction Services to the City of Lathrop* detailing obligations for the auction of surplus inventory, including fees, declarations, services to be provided, and other legal requirements. The Grand Jury also noted that the City has a financial trail which records revenues from the sale of surplus property to appropriate City accounts.

Findings

F2.1 The surplus property policy has no reference to compliance with Government Code Sections 54220 *et seq.*

Recommendations

R2.1 No later than September 30, 2013 the City adopt a policy for disposition of surplus land and buildings to include when appraisals are to be conducted, required compliance with Government Code Section 54220 *et seq.*, and a prior public disclosure of the proposed sale.

R2.2 Before any future disposal of land or buildings is finalized a report is provided to the City Council in open session that includes the purpose of the sale; evidence of compliance with applicable State laws; the full identity of the purchaser; the total sale price; and, if the sale price is less than the appraised value, the reason for the difference.

City of Lodi

The City of Lodi addresses the disposal of surplus capital assets in its Municipal Code. Section 2.12.120 authorizes the City manager, after a recommendation from the City's purchasing officer, to sell personal property with a value of less than \$2,000 by advertised bid or by auction. A report to the City Council is required within 30 days of these sales. Section 3.20.030 grants the purchasing officer the authority to transfer surplus supplies and equipment between departments or to recommend their sale. Section 3.20.110 authorizes the sale of personal property with an estimated value of less than \$20,000 to be made in the open market without observing formal contract procedures. Section 3.20.130 exempts the disposition of fleet vehicles and other specific equipment from the formal contracting procedures. In response to the Grand Jury's survey the City also identified a series of Government Code sections that are related to disposal of capital assets and are followed in the City's procedures. The City also noted that capital assets purchased with grant funds may be subject to restrictions or special requirements of the grant when it is sold.

Response to the survey indicated that between 2007 and 2012 the City of Lodi had two sales of land, both by negotiated sale; 21 sales of surplus vehicles by private auction firms, traded for new vehicles, or sold as junk; and, 20 sales of major equipment by negotiated sale or private auction sale. The *Auction Agreement* between the City and the auction firm, which is approved by the City manager as specified by the City Council, contains indemnifications, security interests and other provisions giving the City liability protection. The Auction Agreement also requires the contracted auction firm to advertise the sale details and the property to be sold. A quarterly report is provided to the City Council explaining the disposition of any surplus vehicle and equipment sales that have occurred.

The reported sales of surplus land and buildings had been by negotiated sale. Selection of firms to conduct appraisals is exempt from the City's formal bidding requirements. The most recent

reported land sale was a part of an overall Purchase and Development Agreement with an affordable housing developer. The appraisal and other terms of the sale were a part of the agreement document and not included in the staff report to the City Council.

Findings

F3.1 The staff report for land sale to the housing developer provided very little information. The public must read through an attached long and comprehensive agreement containing many legal requirements in order to obtain basic information on land sale, such as sale price versus appraisal value.

Recommendations

R3.1 Before any future disposal of land or buildings is finalized a report is provided to the City Council in open session that includes the purpose of the sale; evidence of compliance with applicable State laws; the full identity of the purchaser; the total sale price; and, if the sale price is less than the appraised value, the reason for the difference.

City of Manteca

The Grand Jury received information and documentation from the City of Manteca in response to its survey and questionnaire. The Grand Jury determined there was not sufficient information provided so a thorough review could not be completed within the Grand Jury's time constraints. Therefore, the Grand Jury makes no findings regarding the City of Manteca's disposition of major capital assets and suggests that a future County Grand Jury conduct a thorough review of the information provided.

City of Ripon

The City of Ripon identifies sections of its Municipal Code for its authority and procedures for disposition of capital assets. Section 3.20.020 identifies a Purchasing Officer appointed by the City administrator responsible for administering the sale of all supplies and capital assets that cannot be used by other City departments. Section 3.20.070 of the Code requires a formal bidding process for sales of personal property, and Section 3.20.100 describes the formal bidding procedures for articles to be sold.

Section 3.20.110 allows the purchasing officer to sell surplus personal property with an estimated value of less than \$25,000 without first seeking sealed bids and following the formal bidding procedures.

Response to the Grand Jury's survey indicated that between 2007 and 2012 the City of Ripon had no sales of surplus land; 15 dispositions of buildings through negotiated sales; six vehicles sold through a public auction; and, one sale of major equipment through a public auction. No specific agreement with the private auction firm which conducted a vehicle sale of the City was provided.

However, City Council approval of the sale with a list of vehicles to be sold was provided. Information related to the most recent property sale during the survey period included an independent appraisal and various buyer agreements. Minutes of redevelopment agency approval of the sale were also provided.

Findings

F5.1 Ordinance No. 110 establishing provisions for purchasing and disposal of personal property and capital assets by the City of Ripon was adopted in 1958. Procedures related to the disposal are vague and do not clearly address either an adopted policy or procedure. Requirements for the sale of land and buildings are not addressed in a manner that can be easily understood by the public, nor are there clearly defined procedures.

F5.2 Staff reports at the time real property is sold do not contain sufficient information to inform the public about the proposed transaction.

Recommendations

R5.1 No later than December 1, 2013, the Municipal Code be reviewed and amended to clarify the distinction between purchase and sale of City property, and to update disposition procedures, clarifying the process for disposal of surplus vehicles and equipment.

R5.2 No later than September 30, 2013, the City adopt a contract document to be used for all sale of surplus vehicles and equipment that provides a clear indication of the fee to be paid the selling firm, protections for the City against claims resulting from the auction, liabilities and responsibilities of all parties, and other legal protections of the City's interests.

R5.3 No later than September 30, 2013, the City adopt a policy for disposition of surplus land and buildings to include when appraisals are to be conducted, required compliance with Government Code Section 54220 *et seq.*, and a prior public disclosure of the proposed sale.

R5.4 Before any future disposal of land or buildings is finalized a report is provided to the City Council in open session that includes the purpose of the sale; evidence of compliance with applicable State laws; the full identity of the purchaser; the total sale price; and, if the sale price is less than the appraised value, the reason for the difference.

City of Stockton

The City of Stockton has well established procedures that are, compared to some of the other cities investigated, very comprehensive. Section 510 of the Stockton Municipal Code details the procedures to be followed for the sale or lease of real property. Section 3.60.010 of the Municipal Code describes the procedures for the sale of personal property. If the estimated sale value is over \$20,000, City Council action is required, if the values is less than \$20,000, the City manager is

authorized to undertake the sale with a report to be provided to the City Council. The City's Administrative Directive HRD-02, last reviewed in 2006, addresses the details for selling surplus real property. It includes the requirement for an independent appraisal to be conducted; the posting of a for sale sign on the property; minimum bid amounts if the property is to be sold to adjoining property owners; applicable Comprehensive Environmental Quality Act (CEQA) reviews be conducted; requirements in Government Code Section 54220 *et seq.* be adhered to; that sealed bids are required; and City Council approval is required.

Response to the Grand Jury's survey indicated that between 2007 and 2012, the City had five disposals of land, one a dedication to the State for the courthouse and four by negotiated sale; one disposal of a building by negotiated sale; 31 occasions of vehicles being sold by a private auction firm; and five sales of major equipment by a private auction firm. Documents provided by the City indicate that a comprehensive contract for the sale of vehicles through private firms was used. The contract was developed by the California Department of Justice for use by state agencies, and made available for cities to use in conducting their own sales. After the auction the private firm provided the City detailed information on the sale price of each vehicle and piece of equipment, the costs incurred by the auction firm and other relevant information about the condition of the vehicle or the sale.

The disposition of real property is handled under Administrative Directive HRD-02. The Grand Jury was informed that proposed sales of abandoned rights-of-way are noticed in a local newspaper before presented for City Council action by a resolution. A separate *Agreement for Purchase and Sale of Real Property* is written by staff and presented for council approval. The Agreement includes the sale price, obligations of both the City and the buyer, and legal protections for the City. A staff report gives the public an easily understandable summary of the requirements included in the Administrative Directive.

Findings

F6.1 Correspondence between the City and the State Department of Justice in October 2011 indicated that the State's contract agreement with private auction firms might be terminated because of state budget cuts. There was no indication if the matter has been resolved. Since the state agreement is comprehensive and benefits the City, an alternative agreement should be available for the City's use.

F6.2 Stockton Code Section 3.60.010 requires the City manager to present the City Council a report on personal property sales valued under \$20,000. There is no indication whether the report is to be a public document. A written response from the City indicated that in the past the information was included in a weekly newsletter provided to the City Council. No surplus property sales took place between 2008 and 2010; however, a sale that occurred in 2011 was not reported as required by Municipal Code. The City indicated they were in the process of updating their surplus property sale procedures.

Recommendations

R6.1 The City Council direct the City Attorney to prepare no later than November 1, 2013, a comprehensive auction agreement for use by the City.

R6.2 Effective immediately the City Manager's report on surplus personal property sales pursuant to Municipal Code Sec. 3.60.010 be prepared as a public document presented at a regular City Council meeting.

City of Tracy

The City of Tracy identified Municipal Code Section 2.20.300 (*Disposition of Real Property*) and Section 2.20.310 (*Surplus Commodities and Equipment*) as its authorization for and the process to dispose of surplus property. For disposition of real property the City Council has exempted land that remains from a larger parcel when a part of the parcel was used for street purposes, abandonments for street widening, or alignment projects when only minor amounts of land are being disposed as permitted under Government Code Section 65402(a). This section of the Municipal Code also requires disposition of real property be conducted by competitive methods unless the City Council, by resolution, determines other procedures are in the City's best interest. The City manager may approve disposal of commodities and equipment if the values is less than \$2,000; City Council approval is required if the value is more than \$2,000.

Response to the Grand Jury's survey indicated that between 2007 and 2012 the City had one sale of surplus land by direct sale to San Joaquin County; 15 sales of surplus vehicles by contract with a private auction firm; and, six sales of equipment by a private auction firm or on e-Bay. The vehicle and equipment were designated as surplus by city council action prior to sale. The sale agreement was a form prepared by a private auction firm. The land sale to the County was documented with evidence of compliance with Government Code Section 54220 *et seq.*, results of an independent appraisal; the fiscal impact of the sale; and, the purchase and sale agreement for the property. The final council action was during an open public meeting.

Findings

F7.1 The City of Tracy has no procedures manual or clearly defined procedures for the disposition of surplus vehicles and equipment. While no indications of any questionable actions were identified, the lack of clear and transparent procedures could raise concerns about the public's interest being protected.

F7.2 The agreement with the private auction firm contained limited protection for the City against claims or other possible legal actions resulting from the auction.

Recommendations

R7.1 That prior to December 1, 2013, the City adopt procedures related to the disposition of vehicles and equipment, including who is responsible for the disposal, when council approval is required, notification requirements and information made available to the public.

R7.2 That the City Council direct the City Attorney to review the current agreement used for sale of surplus vehicles and equipment to ascertain its protection of City interests, or prepare a new sale agreement to be used by the City. The City Attorney's report to and action by the City Council is to occur prior to November 1, 2013.

San Joaquin County

San Joaquin County has established its general authority for disposition of capital assets in the County's Administrative Manual Section 2700 *et seq.* Section 2711.1 of the Manual gives the County Purchasing Agent the authority in disposing of surplus personal property to use "*...such methods and procedures as in his/her judgment will return the greatest value to the County.*" The Manual stipulates that only the Board of Supervisors and/or the Purchasing Agent may authorize the disposal of surplus personal property, and that surplus computer equipment must be disposed in a manner consistent with specific procedures last adopted in June 1997. The Purchasing Agent deposits with the County Treasurer the sale proceeds and submits a complete accounting of all transactions to the County Auditor-Controller.

Response to the Grand Jury's survey indicated that from 2007 to 2012 the County had four disposals of land, two by sealed bid and two given to the Lockeford Community Services District; three buildings were disposed of, two by sealed bid and one given to the Lockeford Community Services District; 665 vehicles were disposed of by sealed bid, negotiated sale, contract with a private auction firm, trade-in or sold as junk; and, 134 pieces of major equipment were disposed of by sealed bid, negotiated sale, contract with a private auction firm, trade-in or sold as junk.

The contracts with two private firms hired to auction the vehicles contained comprehensive details about the parties' responsibilities, liabilities and limitations, fee schedules and other protections for the County. Evidence was provided that the County reviewed the proceeds from the auction sale when the County required a private auction firm to refund monies to the County because the firm applied higher fees than permitted under contract.

In response to the Grand Jury's request for additional information the County reported on the sale of property located on N. San Joaquin Street in 2010. The Board of Supervisors first adopted Resolution R-10-440 indicating the County's intent to sell the real property giving the time and location for opening sealed bids for the property. Documents verified that Government Code 54220 *et seq.* was complied with. Notices of the intended sale were posted at the property location and in newspapers. Bids were received and opened during public session of the Board of Supervisors with interested parties being able to submit bids during the Board meeting. A separate

Board resolution was required to approve the sale. Throughout the process staff reports adequately describe what actions have occurred and what are proposed.

Findings

F8.1 There was no indication from the County materials received that a public disclosure of the results of sales of surplus vehicles and equipment was made. Unless the Board of Supervisors was the authorizing agent for the sale pursuant to the County Administrative Manual, the process is handled completely at an administrative level.

F8.2 The County indicated that it does not have a policy requiring independent appraisals of real property it sells because there is no requirement for an appraisal under the Government Code. This lack of information makes it difficult for the public to determine if the sale was in the public interest.

Recommendations

R8.1 Beginning September 30, 2013 the County Administrative Officer provide a quarterly public report to the Board of Supervisors summarizing the disposals of vehicles and equipment during the preceding quarter. The report should include the amount of revenues derived from the sales.

R8.2 No later than December 1, 2013 the County Board of Supervisors amend the County's Administrative Manual regarding procedures for disposal of surplus land and buildings to include a policy for when an appraisal of the property/building shall be required.

Conclusion

The cities and the county investigated by the Grand Jury in general provide an open and transparent process for the disposal of the public's surplus major capital assets. Most have clear policies or procedures for the public to determine if an objective process is used or favoritism is occurring. The degree of detail in these procedures varies. To help assure that the public interest is foremost in the government's actions, that transparency and disclosure will be maintained throughout the disposal of assets process, and that applicable laws are complied with, the Grand Jury has recommended actions for each jurisdiction to consider. The Grand Jury expects local governments will keep their stewardship of the public's assets at the forefront of their decisions and actions.

Disclaimer

Grand Jury reports are based on documentary evidence and the testimony of sworn or admonished witnesses, not on conjecture or opinion. However, the Grand Jury is precluded by law from disclosing such evidence except upon specific approval of the Presiding Judge of the Superior Court, or another judge appointed by the Presiding Judge (Penal Code Sections 911, 924.1(a) and 929). Similarly, the Grand Jury is precluded by law from disclosing the identity of witnesses except upon an order of the court for narrowly defined purposes (Penal Code Sections 924.2 and 929).

Response Requirements

California Penal Code sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of San Joaquin County Superior Court within 90 days.

Specific Response Requirements:

The Escalon City Council is to respond to Findings F1.1, F1.2, F1.3 and F1.4; and Recommendations R1.1, R1.2, R1.3, R1.4 and R1.5

The Lathrop City Council is to respond to Finding F2.1 and Recommendations R2.1 and R2.2.

The Lodi City Council is to respond to Finding F3.1 and Recommendation R3.1.

The Ripon City Council is to respond to Findings F5.1 and F5.2; and Recommendations R5.1, R5.2, R5.3 and R5.4.

The Stockton City Council is to respond to Findings F6.1 and F6.2; and Recommendations R6.1 and R6.2.

Tracy City Council is to respond to Findings F7.1 and F7.2; and Recommendations R7.1 and R7.2.
The San Joaquin County Board of Supervisors is to respond to Findings F8.1 and F8.2; and Recommendations R8.1 and R8.2.

Mail or hand-deliver a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
P. O. Box 201022
Stockton, CA 95201

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at

grandjury@sjcourts.org

August 13, 2013

Presiding Judge
San Joaquin Superior Court
222 East Weber Avenue
Stockton, CA 95202

**CITY OF STOCKTON RESPONSE
GRAND JURY 2012-2013 LAW AND JUSTICE REPORT**

In accordance with Sections 933 and 933.05 of the California Penal Code, the City Council of the City of Stockton responds to the Grand Jury Report on the above-referenced case as follows:

FINDINGS

F 2.1 The absence of GPS devices and computers in the fire vehicles may delay the response times to emergencies.

***Response:** The respondent agrees with the finding. While the City of Stockton does not anticipate the use of GPS devices making significant improvement in response times, the City agrees that GPS devices are a valuable tool for use in emergency response vehicles. Corrective action is being taken as described in the response to recommendation 2.2.*

F 2.2 The absence of GPS devices and computers in fire vehicles put firefighters at risk when responding to an emergency outside their assigned area without the necessary data.

***Response:** The respondent agrees with the finding. The use of GPS and other technology tools assists all personnel in better carrying out their job functions. This is particularly true for firefighters responding to emergency outside their regularly assigned areas where they are less familiar with the built environment. Corrective action is being taken as described in the response to recommendation 2.2.*

RECOMMENDATIONS

R 2.2 The Stockton City Council, by December 31, 2013, approve the purchase of current mobile technology (e.g., laptop computer, tablets, GPS devices) along with appropriate software for all fire engines in the city's fire department.

Response: *The respondent agrees with the recommendation. The City of Stockton Fire Department has been aware of the need for modernizing the technology for the fire vehicle fleet. In past years, Fire management was not sufficiently focused on maintaining technology or equipment current with modern standards. The City is interested in using technology to measure and manage performance in future years. However, this technology deployment has recently been delayed as a result of competing priorities and limited capital funding in past years. The Fire fleet was outdated to the point that engines were regularly failing and limited reserve engines were available. The Fire Department has been focused on acquiring more engines and through innovative efforts and grant funding has arranged for the purchase of six new engines over the past year.*

The Fire Department is now at a point at which we can address lower priorities like GPS technology. The City of Stockton received grant funding for the purpose of developing and deploying mobile technology for the fire department vehicles. This mobile technology project will satisfy the recommendation of the Grand Jury. Fire staff has been working collaboratively with the City of Tracy Fire Department on the deployment of Mobile Tablet Technology that will lower the costs for deployment and provide for sustainable funding for replacement and maintenance. This project will also include the City of Manteca Fire Department, who contracts with the City of Stockton for dispatch services.

It is estimated that the mobile technology project will be fully deployed and operational by December 31, 2013.

BOB DEIS
CITY MANAGER

BD:SJP

San Joaquin County Grand Jury



2012-2013 Law and Justice Report

Overview

Each California grand jury is mandated to review the detention facilities within its county whether it is operated by the State of California, the county, or any city within the county. California Penal Code Section 919 (b) states "The grand jury shall inquire into the condition and management of the public prisons within the county."

The State of California has three institutions within San Joaquin County: Deuel Vocational Institution for adult males and two facilities for juvenile males, O.H. Close and N.A. Chaderjian. The County has three detention facilities: the San Joaquin County Jail, the Juvenile Detention Center and the medical custody facilities at the San Joaquin General Hospital. In addition, the County has temporary detention facilities at the San Joaquin County Superior Courts in Stockton and in Manteca. Finally, each city police department has jail facilities or other temporary detention facilities. The 2012-2013 Grand Jury (Grand Jury) visited all detention facilities located within the county.

The Grand Jury is reporting on the following detention facilities:

- Deuel Vocational Institution
- Northern California Youth Center
- San Joaquin County Jail (including the Honor Farm)
- San Joaquin County Juvenile Detention Center
- Temporary Detention Facilities

Property rooms for the Sheriff's Department and all city police departments were visited. A report was written on these facilities.

The Grand Jury participated in 30 ride alongs with public safety agencies. A report was written with findings and recommendations.

Disclaimer

Grand jury reports are based on documentary evidence and the testimony of sworn or admonished witnesses, not on conjecture or opinion. However, the grand jury is precluded by law from disclosing such evidence except upon specific approval of the Presiding Judge of the Superior Court, or another judge appointed by the Presiding Judge (Penal Code section 911, 924.1 (a), and 929). Similarly, the grand jury is precluded by law from disclosing the identity of witnesses except upon an order of the court for narrowly defined purposes (Penal Code sections 924.2 and 929).

San Joaquin County Grand Jury



2012-2013 Law and Justice Report Deuel Vocational Institution

Summary

California Penal Code section 919(b) requires that grand juries inquire into the condition and management of public prisons within the county. In accordance with this mandate, the 2012-2013 Grand Jury (Grand Jury) toured the Deuel Vocation Institution (DVI), a State facility, located at 23500 Kasson Road, Tracy, California. This facility opened in 1953 as a Youth Authority Vocational School with a capacity of 1,756 inmates. Over time, the facility has grown and has served different needs of the California Department of Correction and Rehabilitation (CDCR). DVI currently houses adult males and its mission is two-fold: A general population prison and a reception center for newly committed prisoners to the CDCR. The prison currently has a capacity of 3,748 but at this time is only housing about 2,475 inmates.

The Grand Jury tour was conducted with the assistance of DVI's Public Information Officer. Additional briefings and interviews were conducted with the warden and the Health Care Chief Executive Officer. During these briefings, the Grand Jury learned about recent impacts of AB 109 to DVI including the reduction in the number of inmates housed along with a corresponding reduction of 50 jobs.

Background

The tour consisted of a visit to the reception center where prisoners from 22 California counties are delivered and processed for later reassignment to prisons throughout the State. The maintenance yard was visited where inmates receive/use training in vocational skills that include plumbing and welding. The tour included the dining halls, kitchen facilities, main exercise yard, chapels, inmate-housing units (C-Wing and East Hall) classrooms, and medical evaluation facilities.

Conclusion

The Grand Jury finds the job that the prison leadership and staff have accomplished at Deuel Vocational Institution is commendable, especially given the age of the facility, the impact of AB 109 and the ever-changing mission of the facility.

Acknowledgements

In addition, the Grand Jury sincerely appreciates the time spent by the Warden and staff, and their openness to discuss issues of interest to the Grand Jury.

San Joaquin County Grand Jury



2012-2013 Law and Justice Report Northern California Youth Center

Summary

The 2012-2013 Grand Jury (Grand Jury) conducted its mandated tour of the Stockton facilities of the Northern California Youth Center (NCYC). The two facilities located in Stockton, California, are the N.A. Chaderjian Youth Correctional Facility (Chad) and the O.H. Close Youth Correctional Facility (Close). NCYC also operates the Pine Grove Youth Conservation Camp which was not toured because it is outside the County.

The NCYC facilities were built in 1991 and are located on 144 acres east of Highway 99 off Arch Road. Chad has a capacity of 600 youth and housed 325 at the time of the tour. Close has a capacity of 400 youth and housed 175 at the time of the tour. These correctional institutions are operated by the Division of Juvenile Justice (DJJ) and are maximum security lock-up institutions.

These two facilities receive juveniles whose crimes are violent and/or sexual in nature. The mission of this agency is to assess the needs of the incarcerated youth and to implement various programs for rehabilitation. Intense treatment programs are offered including specialized counseling for sex offenders and substance abuse treatment. These facilities also offer instruction in basic skills, high school courses, special education and vocational programs. The total operating budget for NCYC is over \$205 million per year, or over \$176 thousand per incarcerated youth.

Glossary

CDCR	California Department of Corrections and Rehabilitation
Chad	N. A. Chaderjian Youth Correctional Facility
Close	O.H. Close Youth Correctional Facility
DJJ	California Department of Juvenile Justice
NCYC	Northern California Youth Center

Background

The California Department of Corrections and Rehabilitation (CDCR) operates the California prison system. Within CDCR, the Division of Juvenile Justice operates four programs comprised of the three NCYC programs and a program in Ventura. The NCYC has two programs in Stockton, California (Chad and Close), as well as the Pine Grove Youth Conservation Camp located in Pine Grove, California. While all three NCYC facilities are under the leadership of one superintendent, each facility has its own administrators, correctional officers, youth counselors and other support staff. The Grand Jury toured the Chad and Close facilities and reviewed information on their staffing, expenditures and schools.

Issues

As a result of the tour and review of documents, the Grand Jury found two general issues: Maintenance and underutilization of the facilities. The general maintenance of the facilities is of concern because many examples of poor maintenance were observed on the grounds of the 144-acre facility as well as the interior and exterior of the buildings.

During the tour, it was apparent that the facilities are operating at approximately half of their capacity. The reduction of inmates has been accomplished by returning juveniles to the counties, either to the juvenile probation department or to juvenile hall. Even with the unused capacity, both institutions have duplicate administrative staff and offer similar services. Given the underutilization of the facilities and the duplication of administrative staffing, the cost of housing these youths (\$176,029 per year per incarcerated youth) is noteworthy, especially considering the condition of the facility.

Discussion, Findings and Recommendations

1.0 Maintenance

Although all buildings appear to be structurally sound, the Grand Jury noted that both facilities are aging and in need of repairs to ensure the health and safety of the youths and the staff members. During the tour, the following issues were noted:

- Underground plumbing is leaking in multiple locations
- Rain gutters are not being cleaned as grasses/weeds were seen growing in many of the gutters
- Some floor tiles are partially or completely missing
- Ceiling tiles over sleeping areas show signs of water damage
- Exterior paint on some buildings is peeling

Findings

F1.1 The building and grounds maintenance issues observed are significant enough to jeopardize the health and safety of the youths and the staff members.

F1.2 The building and grounds maintenance issues observed could lead to expensive repairs if not addressed soon.

Recommendations

R1.1 The Youth Authority Administrators of N.A. Chaderjian Youth Correctional Facility and O.H. Close Youth Correctional Facility determine all repairs needed, prioritize the repairs needed for the welfare of the youths and make the necessary repairs.

R1.2 The Youth Authority Administrators of N.A. Chaderjian Youth Correctional Facility and O.H. Close Youth Correctional Facility review, and revise where needed, their preventative maintenance program. In the event a preventive maintenance plan has not been created, a plan should be developed.

Conclusion

The overall security of the facility seems to be adequate for the level of incarcerated youths.

Response Requested

The California Department of Corrections and Rehabilitation, Department of Juvenile Justice, is requested to respond within 90 days of publication of this report to the findings and recommendations in writing to the Presiding Judge of the San Joaquin County Superior Court.

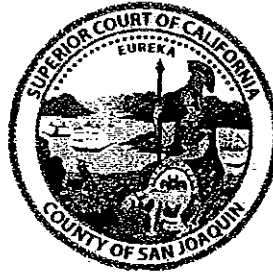
Mail a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
P.O. Box 201022
Stockton, CA 95201

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at:

grandjury@sicourts.org

San Joaquin County Grand Jury



2012-2013 Law and Justice Report San Joaquin County Jail John J. Zunino Detention Facility

Summary

In accordance with Penal Code section 919(b), one of the mandated requirements of a grand jury is to annually conduct a review of the condition and management of the County Jail facilities. The 2012-2013 Grand Jury (Grand Jury) commends the Sheriff's Department for operating a clean and well-run facility, despite intermittent overcrowding, gang-related inmate interactions and limited funding.

The County Jail has been significantly impacted by the passage of California Assembly Bill (AB) 109 that became effective on October 1, 2011. This act moves specific classifications of inmates from state prisons to county jails. While the State will continue to incarcerate offenders who commit serious, violent, and/or sexual crimes, the responsibility of supervising, rehabilitating, and managing low-level offenders has now been placed with the County. In addition, parole violators are now sent to county jails and not state prisons. The implementation of this bill has raised concerns within the Grand Jury because it has increased the overcrowding of the jail, which has significantly affected the jail operations and inmate population.

The overcrowding in the County Jail and the implementation of AB 109 is fully addressed in another 2012-2013 Grand Jury report. Therefore, this report does not contain findings or recommendations regarding the jail capacity.

Background

In compliance with its legal mandate, the Grand Jury toured the County Jail. The tour was conducted with the assistance of the officers of the Sheriff's Custody Division and consisted of the following locations: Honor Farms (male and female), Intake/Booking area, Medical Housing Unit, General Population Housing, South Jail, Transportation and the Administration Center.

The San Joaquin County Jail has 1,411 beds, serves as an intake center and provides for the detention of pre-trial persons as well as the confinement of sentenced persons. Housing and services are of equal quality for all detainees. Juveniles are not housed within this facility.

Issues

As a result of the tour, the Grand Jury found two general issues. First, the architectural design of the housing units creates blind spots that are unsafe for inmates and correctional officers. In addition, it was observed that inmates at the Honor Farm had time without structured activities.

Discussion, Findings, and Recommendations

1.0 Safety Concerns

During the Grand Jury's tour of the jail, it was observed that the architectural design of the corridors of the housing units created blind spots. Within each housing unit, the correctional officers monitor the inmates from a central guard station. There are areas within these units where a person could stand but not be seen from the guard station. When a correctional officer is working in one of these areas, officers in the central guard station could not monitor his/her safety. In addition, inmates could stand in these areas and conduct illegal or otherwise inappropriate activities.

Finding

F1 Blind spots in the common areas of the housing units can be a safety concern.

Recommendation

R1 The San Joaquin County Sheriff's Department, by December 31, 2013, identify the blind spots in the common areas of the housing units and install surveillance cameras, mirrors, or other aid so that correctional officers are able to visually monitor all areas of the housing units.

2.0 Additional Positive Programs and Activities

Some Honor Farm inmates work in designated service areas in and around the jail during a portion of their day. When their work assignments are completed, they return to the housing unit without structured activities.

Over the years, programming for inmates has been reduced due to budget constraints. Additional programming is needed to more fully fill the inmates' day with positive activities.

Finding

F2 There is a lack of positive activities for idle inmates at the Honor Farm after completion of their work assignments.

Recommendation

R2 The San Joaquin Sheriff's Department, with the assistance of other agencies, by December 31, 2013, implement additional educational (vocational or other) programming for its Honor Farm inmates.

Acknowledgements

The Sheriff, his immediate staff, the Correctional Officers, and Deputy Sheriffs, are all to be commended for their performance, positive attitude and level of professionalism in their efforts to protect the citizens of San Joaquin County. The Grand Jury would also like to thank the private citizens who volunteer their time to assist the Sheriff's Department. Currently there are more than 150 volunteers who are team-oriented, positive, and supportive, helping make a difference in the lives of the inmates.

Response Requirements

From The San Joaquin County Sheriff's Department:

California Penal Code sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of San Joaquin County Superior Court within 60 days.

Mail a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
P.O. Box 201022
Stockton, CA 95201

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at:

grandjury@sjcourts.org

San Joaquin County Grand Jury



2012-2013 Law and Justice Report San Joaquin County Juvenile Detention Center

Summary

In accordance with California Penal Code section 919(b), the 2012-13 Grand Jury (Grand Jury) toured the Juvenile Detention Center (Juvenile Hall) of San Joaquin County. This penal code section requires that the Grand Jury inquire into the condition and management of public prisons within the county. The Probation Department of San Joaquin County operates the Juvenile Hall that houses males and females who are generally 12 to 18 years of age.

Background

San Joaquin County's Juvenile Hall is located at 575 W. Mathews Road, French Camp, California. The newest portion of the facility was built in 2002 while other parts date back to the 1950's and 1980's. The newer areas and units are in good condition with the older units showing their age. The facility holds 179 beds, however only 120 beds are utilized due to staffing reductions. The food is provided (three hot meals per day plus two snacks) by an outside contractor. The administrator complemented this company for providing healthy and balanced meals for the youths. The annual budget for the Probation Department's Detention and Institutional Services Division is \$16.3 million.

Juvenile Hall serves the dual purposes of intake and detention. On average, 400 to 500 youths are processed at the facility each month. About 90-100 youths are detained each month at Juvenile Hall. The other youths have home supervision, probation or are sent to other agency destinations and programs.

As a detention facility, security is critical. Mirrors and security cameras are placed throughout the facility to monitor activity. Incidents of attempted escapes were reported as very infrequent with no actual escapes occurring in recent years.

The facility consists of a reception area, five housing units, and Camp Peterson. There is also a property room that contains personal belongings for juveniles housed there and for those juveniles bound for detention at a California Division of Juvenile Justice facility.

Camp Peterson is an open dorm housing 15-17 males who are in a 360-day program. Eligibility for this program is determined by an evaluation based on many factors including the crime committed, social skills, educational level and age. As the youths display positive behavior, they accrue higher privileges that ultimately lead to weekend home passes. Once the youth has been released to the probation system, a tracking device is utilized for on-going monitoring.

The goal at the Juvenile Hall is to educate and guide the youths to become better citizens and to build positive self-esteem. Currently, the Juvenile Hall is utilizing Evidence Based Cognitive Behavior Aggressive Replacement, a program developed by Dr. Edward Latessa of the University of Cincinnati. This program consists of 200 hours of programming geared to assist the youths as they transition into society. The modules offered include:

- Thinking for a Change
- Buster Training
- Pro Social Choices
- Substance Abuse Education
- Gang Education
-

Girl Scout programs are offered to female detainees and parenting classes are offered to the parents of the youths.

Method of Investigation

The Grand Jury conducted two tours of the Juvenile Hall so that all members were able to see the facility. Both groups were given background information on the operation of the Juvenile Hall, were shown the full facility and were able to ask questions of the staff.

Issues

When touring one area of the Juvenile Hall, the Grand Jury saw tables and chairs that were not secured to the floor. This raised safety concerns.

Discussion, Findings, and Recommendations

1.0 Unsecured Furniture

Unit 6 houses juveniles who are charged as adults. During the tour of the facility, the Grand Jury observed that the tables and chairs in this unit were not secured to the floor. When staff members were asked about the furniture, they indicated that the chairs had been used in fights in the unit.

Finding

F1 The tables and chairs in Unit 6, which houses juveniles charged as adults, are not secured which raises safety concerns.

Recommendation

R1 The Probation Department, by September 1, 2013, secure the furniture in Unit 6 of the Juvenile Hall as is done in Department of Juvenile Justice and adult facilities.

Conclusion

The Grand Jury found the Juvenile Hall to be well maintained. All operations appeared efficient and orderly. The youths are kept occupied much of the day with education and training classes. There is a well-structured program of school, recreation, free-time and program attendance.

Response Requirements

From the San Joaquin County Board of Supervisors:

California Penal Code sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of San Joaquin County Superior Court by (within 90 days).

Mail a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
P.O. Box 201022
Stockton, CA 95201

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at:

grandjury@sjcourts.org

San Joaquin County Grand Jury



2012-2013 Law and Justice Report Temporary Detention Facilities

In addition to the County Jail, there are a number of other facilities in San Joaquin County that are used to detain individuals for a few hours or a few days. These facilities include one city jail and seven locations with holding cells, secured rooms for detaining individuals for not more than a few hours.

The City of Lodi has a jail that is a Type I facility, the lowest level of jails. Type I jails are built to higher standards than holding cells and can therefore house individuals for a few days but not longer. The 2012-2013 Grand Jury (Grand Jury) found the Lodi City Jail to be adequate.

Holding cells and are typically used to hold individuals for a matter of hours until they can be transported to a jail or prison or to hold individuals at a courthouse before or after their appearances. As such, holding cells are not required to meet the same level of standards as a jail or prison.

The holding cells of the following jurisdictions were toured:

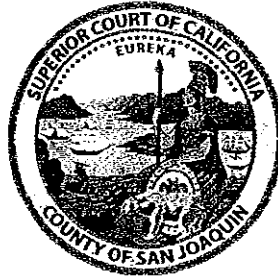
- Escalon Police Department
- Manteca Police Department
- Ripon Police Department
- San Joaquin County Superior Courthouse, Manteca
- San Joaquin County Superior Courthouse, Stockton
- Stockton Police Department
- Tracy Police Department

The holding cells at the above facilities, with the exception of the Stockton Superior Courthouse, appear to be adequate.

The San Joaquin County Superior Court building was constructed in 1962. At that time, the volume of defendants handled by the Court system was about half of today's volume and the safety measures included in the design were adequate. Previous San Joaquin County grand juries have addressed this issue.

Concerns were expressed about the holding cells and about the movement of inmates through the same hallways used by the general public. The Sheriff's Department is responsible for courthouse security and has taken measures to protect the safety of everyone in the courthouse. Plans are moving forward to construct a new courthouse that addresses the security issues. The Grand Jury encourages the State to quickly move forward with the construction of a new courthouse.

San Joaquin County Grand Jury



2012-2013 Law and Justice Report Property Rooms

Each law enforcement agency in the County has a property room; a secure place where items are received and stored. The proper processing and storage of these items is critical when they are needed for future prosecutions. In order for evidence to be used in a trial, each item must be received, processed, and stored in such a way that the chain of evidence can be proven in court. In addition, some items are held that are not evidence for a trial. Examples of these are firearms taken from people involved in domestic violence and recovered stolen property.

The 2012-2013 Grand Jury toured each property room in San Joaquin County. They included:

- Escalon Police Department
- Lodi Police Department
- Manteca Police Department
- Ripon Police Department
- San Joaquin County Sheriff's Department
- Stockton Police Department
- Tracy Police Department

All property rooms toured appeared to be well organized and maintained.

San Joaquin County Grand Jury



2012-2013 Law and Justice Report Public Safety Ride Alongs

Summary

The 2012-2013 Grand Jury (Grand Jury) observed many public safety agencies within San Joaquin County by riding along with staff. Over the course of the year, the Grand Jury participated in more than 30 individual ride alongs, totaling more than 250 hours, with 12 different agencies. These ride alongs were with:

- Escalon Police Department
- Lathrop Police Services
- Lodi Police Department
- Manteca Police Department
- Ripon Police Department
- San Joaquin County Sheriff's Department (including their boat safety patrol)
- San Joaquin Delta College District Police Department
- Stockton Fire Department
- Stockton Police Department
- Stockton Police Department Animal Services
- Stockton Unified School District Police Department
- Tracy Police Department

The employees observed were very professional. The people of the public safety agencies in San Joaquin County are to be commended for the job they are doing.

During these ride alongs, the Grand Jury observed some issues related to resources used by the employees. Much of the equipment (e.g., vehicles, computers, radios, weapons) is aging and needs to be replaced. On a positive note, new rifles were recently purchased by the Sheriff's Department so that each car can now have a shotgun and a rifle. There were also examples of services being reduced. Due to severe reductions in staffing, some agencies do not respond to low priority calls.

Grand Jury members often observed drivers not responding appropriately when approached by vehicles with emergency lights and/or sirens being used. When drivers fail to pull to the right and stop, response time for emergency vehicles is increased. These drivers also threaten their own safety as well as the safety of the emergency responders.

Greater use of technology is becoming standard practice in public safety vehicles. Law enforcement vehicles have computers, which direct them to emergencies, give them the ability to research individuals and vehicles, provide information regarding the calls they respond to and provide other information. Lodi police and fire have a computer system that assists both departments.

The Grand Jury surveyed the fire departments/districts in the County and found that the fire engines of the Stockton Fire Department and the Manteca Fire Department operate without GPS support. Firefighters in these departments rely on binders of printed material for the emergency response information they need.

A quick internet survey resulted in a number of software solutions to assist firefighters. One such company even advertises that its software program will “replace all those 3-ring binders” (the actual data storage system for Stockton and Manteca Fire Departments).

Issues

During these ride alongs, the Grand Jury found two areas of concern. First, it was observed that drivers did not pull over when approached by an emergency vehicle. Also, it was found that the fire vehicles of some departments are without GPS navigation and other current technology.

Discussion, Findings, and Recommendations

1.0 Public Does Not Respond Appropriately When Approached by Emergency Vehicles

When emergency vehicles are responding to an incident/situation, a quick response time is critical. When drivers do not pull over, emergency vehicles must slow down to protect the safety of the emergency responders as well as the occupant(s) of the other vehicle(s).

Finding

F1 Drivers of private vehicles often do not pull to the right and stop for an emergency vehicle, which not only delays the emergency vehicle but also causes safety issues for all concerned.

Recommendation

R1 The Public Information Officer for San Joaquin County, by September 1, 2013, coordinate efforts with local print, radio, TV and cable media outlets in the county and the cities of the county to use Public Service Announcements (PSAs) to educate the public on the proper way drivers should respond when approached by an emergency vehicle.

2.0 Lack of GPS in Fire Engines

During the ride alongs with Stockton Fire Department, it was observed that the engines were not equipped with GPS devices or other similar technology. In a survey of other large fire departments/districts, it was learned the large departments in the County had some form of modern technology including GPS except the Manteca and Stockton Fire Departments.

When the fire engines are without this technology, the firefighters must rely on large binders of printed maps and other information when responding to an emergency. Each engine only has data for their coverage area. However, there are times when engines must respond to emergencies outside their assigned area. In these cases, the firefighters are responding without any geographic or logistics information, other than general personal knowledge, necessary to appropriately respond.

Findings

F2.1 The absence of GPS devices and computers in the fire vehicles may delay the response times to emergencies.

F2.2 The absence of GPS devices and computers in fire vehicles put firefighters at risk when responding to an emergency outside their assigned area and without the necessary data.

Recommendations

R2.1 The Manteca City Council, by December 31, 2013, approve the purchase of current mobile technology (e.g., laptop computers, tablets, GPS devices) along with appropriate software for all fire engines in the city's fire department.

R2.2 The Stockton City Council, by December 31, 2013, approve the purchase of current mobile technology (e.g., laptop computers, tablets, GPS devices) along with appropriate software for all fire engines in the city's fire department.

Response Requirements

California Penal Code sections 933 and 933.05 require that specific responses to all findings and recommendations contained in this report be submitted to the Presiding Judge of the San Joaquin County Superior Court.

The San Joaquin County Board of Supervisors respond to Finding F1 and Recommendation R1 in writing within 90 days of publication of this report.

The City Council of Manteca respond to Finding F2.1, Finding F2.2, and Recommendation R2.1 in writing within 90 days of publication of this report.

The City Council of Stockton respond to Finding F2.1, Finding F2.2, and Recommendation R2.2 in writing within 90 days of publication of this report.

Mail a hard copy of the response to:

Honorable David P. Warner, Presiding Judge
San Joaquin County Superior Court
P.O. Box 201022
Stockton, CA 95201

Also, please email the response to Trisa Martinez, Staff Secretary to the Grand Jury at:

grandjury@sjcourts.org