

City of Stockton

Stockton, California

Independent Accountants' Report on Agreed-Upon Procedures Applied to Core Revenues

For the Year Ended June 30, 2016





**INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING
AGREED-UPON PROCEDURES ON CORE REVENUES**

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

We have performed the procedures enumerated below to the accompanying Core Revenues Schedule of the City of Stockton, California (the "City") for the year ended June 30, 2016. These procedures, which were agreed to by the City and the Assured Guaranty Municipal Corp (as presented in the Reimbursement Agreement between Assured Guaranty Municipal Corp. and City of Stockton entitled *Agreed-upon Procedures Applied to the Core Revenues*, were performed solely to assist you in meeting the requirements of *Article IV Covenants, Section 4.02(b) - Not later than 210 days after and as of the end of each fiscal year, audited financial statements of the City, which financial statements shall include a statement of net position, statement of activities and changes in net position. The audited financial statements shall be audited by independent certified public accountants from a firm experienced in the field of municipal audits and licensed in the State of California, and prepared in accordance with GAAP, and shall be delivered together with an agreed-upon procedures letter from such accountants addressed to Assured Guaranty providing a report showing that such accountants have recomputed the calculations of the Actual Core Revenues and the Contingent General Fund Payment made by the City with respect to such Fiscal Year and have compared the data used in such calculations and found it to be consistent with the audited financial statements or other internal accounts and records of the City for such Fiscal Year.* The City management is responsible for the Core Revenues Schedule.

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

The procedures performed are described below:

1. Obtained and Reviewed Reimbursement Agreement between Assured Guaranty Municipal Corp. and the City of Stockton dated February 25, 2015.

Findings: No exceptions were noted.

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2. Obtained and Reviewed Calculations of the Actual Core Revenues as stated in the Reimbursement Agreement. Core Revenues is defined as follows:

According to the Reimbursement Agreement between Assured Guaranty Municipal Corp. and City of Stockton dated as of February 25, 2015, Article I Definitions, Core Revenues means, for each Fiscal Year, the City's Unrestricted General Fund receipts, net of any required refunds, rebates or legally required adjustments from the following sources: a) ad valorem property tax (excluding any special overrides for voter-approved general obligation bonds); (b) sales and transaction and use taxes; (c) utility taxes; (d) transient occupancy taxes; (e) franchise taxes; (f) business license taxes; (g) document transfer taxes; (h) motor vehicle license fees; (i) other Unrestricted taxes approved by the voters after Fiscal Year 2013-14; and (j) net revenues generated from the sale of Surplus Property; provided, that Core Revenues does not include any Annexed Area Revenues or Realignment Revenues.

<u>General Fund Core Revenues</u>	<u>Fiscal Year 2015-16</u>
Property Taxes	
Property Taxes	\$ 30,646,304
In Lieu of Motor Vehicles License Fees	20,229,972
Motor Vehicles License Fees	123,869
Total Property Tax	<u>51,000,144</u>
Sales Tax	
75% Point of Sale	38,751,156
25% County ERAF Backfill	8,774,722
Proposition 172	1,458,579
Measure A	29,259,106
Total Sales Tax	<u>78,243,563</u>
Utility Users Tax	33,378,793
Franchise Tax	12,396,693
Business License Tax	10,669,613
Hotel/Motel Tax	2,710,538
Document Transfer Tax	856,442
Net Revenue Generated by Sale of Surplus Property	375,188
Total Core Revenues	<u>\$ 189,630,974</u>

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Performed procedures on the following core revenues:

Property taxes:

For property taxes, the firm obtained the total property tax revenue population amounted to \$30,646,304. We performed analytical procedures on the total population by comparing prior year amounts to current year and budgeted amounts. The firm also sent confirmation to the County for total property taxes allocated to the City during the period July 1, 2015 to June 30, 2016. We received the confirmation in the mail and agreed amounts with no material variance noted. The firm also agreed the property tax amounts to the CAFR for the year ended June 30, 2016.

For motor vehicle license fees, the firm obtained the total motor vehicle license fee population amounted to \$20,353,841. The firm sent confirmation to the County for motor vehicle license fees allocated to the City during the period July 1, 2015 to June 30, 2016. We received the confirmation in the mail and agreed amounts with no material variance noted. The firm also agreed the motor vehicles license fees amounts to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted.

Sales and Transaction and Use Tax:

For sales and transaction and use taxes, the firm obtained the total sales and transaction and use tax revenue population amounted to \$78,243,563. We performed analytical procedures on the total population by comparing prior year amounts to current year and budgeted amounts. The firm also sent confirmation to the State Board of Equalization for the $\frac{3}{4}\%$ sales and use tax revenues distributed to the City during the period July 1, 2015 through June 30, 2016 in the amount of \$38,751,156. We received the confirmation in the mail and agreed amounts with no material variance noted. The firm also agreed the total sales and transaction and use tax amount to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted.

Utility Tax:

For utility users taxes, the firm obtained the total utility users tax revenue population amounted to \$33,378,793. We performed analytical procedures on the total population by comparing prior year amounts to current year and budgeted amounts. The firm performed additional ratio analysis by comparing the month to month trend of revenue and cash receipts from revenue detail and cash distribution detail schedules provided by the City. The firm also agreed the total utility users tax amount to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted.

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Franchise Tax:

For franchise taxes, the firm obtained the total franchise tax revenue population amounted to \$12,396,693. We performed analytical procedures on the total population by comparing prior year amounts to current year and budgeted amounts. We tested \$2,495,008 or 20% of the total population by tracing franchise tax revenue to cash receipts and bank statements. The firm also sent out confirmation to PG&E for the residential and commercial franchise tax payments paid to the City during the period July 1, 2015 through June 30, 2016 in the amount of \$2,131,780. We received the confirmation in the mail and agreed amounts with no material variances noted. The firm also agreed the total franchise tax amount to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted:

Business License Tax:

For the business license taxes, the firm obtained the total business license tax revenue population amounted to \$10,669,613. We performed analytical procedures on the total population by comparing prior year amounts to current year and budgeted amounts. The firm performed additional ratio analysis by comparing the month to month trend of revenue and cash receipts from revenue detail and cash distribution detail schedules provided by the City. The firm also agreed the total business license tax amount to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted:

Transient Occupancy (Hotel/Motel) Tax:

For the transient occupancy (hotel/motel) taxes, the firm obtained the total transient occupancy tax revenue population amounted to \$2,710,538. We performed analytical procedures on the total population by comparing prior year amounts to current year and budgeted amounts. We tested \$1,827,899 or 67% of the total population by tracing transient occupancy tax revenue to cash receipts and bank statements. The firm also agreed the total transient occupancy tax amount to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted.

Document Transfer Tax:

For the document transfer taxes, the firm obtained the total document transfer tax revenue population amounted to \$856,442. We performed analytical procedures on the total population by comparing prior year amounts to current year and budgeted amounts. We tested \$330,820 or 38% of the total population by tracing amounts to cash receipts and bank statements. The firm also agreed the total document transfer tax amount to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted:

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Net Revenues Generated from the Sale of Surplus Property:

For the net revenues generated from the sale of surplus property, the firm obtained the total revenue population amounting to \$375,188. We performed analytical procedures on the total population by comparing prior year amounts to current year. The firm also agreed the total net revenue generated from the sale of surplus property amount to the CAFR for the year ended June 30, 2016.

Findings: No exceptions were noted.

3. Obtain and Recalculate the Contingent General Fund Payment according to Article II, Settlement Terms and Payments Section 2.03 Contingent General Fund Payments

Under the Reimbursement Agreement between Assured Guaranty Municipal Corp. and City of Stockton dated as of February 25, 2015, Article II Settlement Terms and Payments, Section 2.03(a), for each Fiscal Year, commencing with the Fiscal Year ending June 30, 2018 and ending in the Fiscal Year ending June 30, 2052 (subject to extension pursuant to the provisions of subsection (d) below), in which the Actual Core Revenues exceed the Baseline Core Revenues, the City shall pay to the Payees, in the manner described in Section 2.05, a payment equal to the Allocable Share of the average Incremental Revenue Ratio for such Fiscal Year and each of the previous two Fiscal Years multiplied by the Shortfall Amount (each such payment, a "Contingent General Fund Payment"). The Payment Date for the estimated Contingent General Fund Payments with respect to any Fiscal Year shall be June 1 of such Fiscal Year, commencing June 1, 2018 to and including June 1, 2052, subject to the provisions of subsections (c) and (d) of this Section 2.03.

Findings: This procedure is not applicable until June 1, 2018.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion on the accompanying Core Revenues Schedule. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the City Council and City management and is not intended to be and should not be used by anyone other than these specified parties.

The PwC Group, LLP

Santa Ana, California
December 30, 2016