

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2016 through March 31, 2016 and projecting out to June 30, 2016. The purpose of this report is to provide the City Council, Management and the citizens of Chula Vista an update on the City's fiscal status based on the most recent financial information.

ECONOMIC UPDATE

The National Forecast¹ - In the March 2016 report, Senior Economist David Shulman points out that the economy has for the most part weathered the disturbances caused by the fall in oil and stock prices as well as the predicted economic slowdown in China and stagnation in Europe. Shulman indicates that the markets have calmed down and wiped out much of their earlier losses as strong data from the consumer side of the economy indicated that retail sales were solid and employment growth remained robust. As such, aside from modest declines in the industrial sector, there was no recession in the data.

The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg revisits the bifurcated recovery undergone by the State as coastal regions have gained traction while the inland regions stagnated, or in some cases contracted. Nickelsburg differentiates that the economy in the eastern part the State was predominately driven by construction, traditional manufacturing, government and agriculture. While in the western part, the economy was predominately one based on services, particularly technology-laden services. Nickelsburg further states that economic growth is currently being more influenced by the presence of a vibrant tech oriented sector(s) or by the presence of extractive energy resources as opposed to "business friendly" governmental policies.

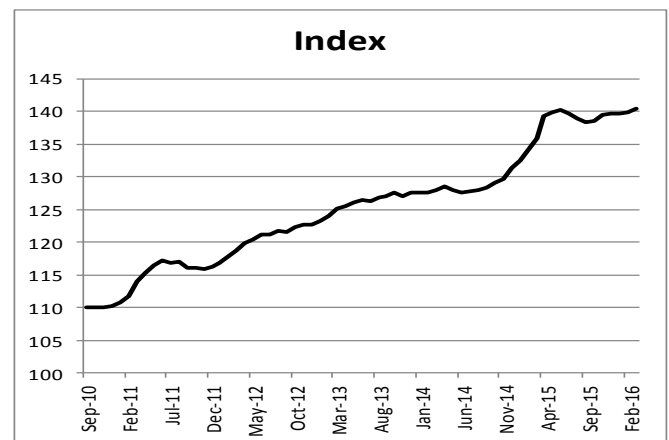
Based on a higher than forecasted employment growth rate of 3.1% for 2015 the forecast has been revised downward. The estimate for total employment growth in 2016 is 1.9% and for 2017 and 2018 the forecast is for 1.6% and 1.0%. Payrolls will grow more at about the same rate over the forecast horizon. Real personal income growth is estimated to be 3.6% in 2016 and forecast to be 3.2% and 3.0% in 2017 and 2018, respectively.

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County rose 0.1 percent in February. The advance was led by a sharp increase in online help wanted advertising along with a moderate gain in initial claims for unemployment insurance. There were smaller gains in building permits and the outlook for the national economy. On the downside was another big loss for local stocks and a small decline in consumer confidence.

With February's gain, the USD Index has now been positive four of the last five months. As a result, the outlook for the local economy remains positive for the rest of 2016. The index was boosted by employment gains as the two employment components of the index posted gains signaling a strong trend for overall growth. Overall, nearly 40,000 wage and salary jobs were added in San Diego County last year.

The index was also strengthened by performance in the construction sector as more than 600 residential construction permits were approved in February and a gain in the national economy as growth in the fourth quarter of 2015 was better than initially reported. The gains in the index were offset decreases in consumer confidence, which fell for the fourth straight month and local stock prices that have yet to recover the losses experienced at the beginning of the year. The decrease in consumer confidence is of concern as consumer activity is typically more than two-thirds of all economic activity in an economy.

**San Diego Index of Leading Economic Indicators
San Diego County, 2010 – 2016**



¹Source: UCLA Anderson Forecast, March 2016

²Source: UCLA Anderson Forecast, March 2016

³Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 2015; retrieved from URL: <http://home.sandiego.edu/~agin/usdle/index.html>

General Fund Reserves - The General Fund Reserve policy was established to ensure that the City's finances are managed in a manner which will:

1. Continue to provide for the delivery of quality services
2. Maintain and enhance service delivery as the community grows in accordance with the General Plan
3. Minimize or eliminate the need to raise taxes and fees because of temporary revenue shortfalls
4. Establish the reserves necessary to meet known and unknown future obligations and ability to respond to unexpected opportunities.

The following table reflects the audited General Fund reserves as of June 30, 2015 as well as the projected General Fund reserves for June 30, 2016.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2015 (audited)	\$ 16.30	\$ 16.30
Revenues & Transfers In ¹	\$ 142.54	\$ 143.19
Expenditures & Transfers Out ²	\$ (143.09)	\$ (143.25)
Net Pending Appropriations ³	\$ -	\$ 0.06
Projected Surplus/Deficit	\$ (0.55)	\$ (0.002)
Projected Fund Balance for June 30, 2016	\$ 15.75	\$ 16.30
Percentage of Operating Budget	11.0%	11.4%

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund.
2. The Amended Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$5.3 million that were carried forward into the fiscal year 2015/16 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2015 and are therefore not included in the above table.
3. Pending net appropriations reflect savings that will be realized by the General Fund as a result of the successful refinancing of various Certificates of Participation (COPS)

The City's financial outlook appears stable through the end of the third quarter. Revenues are projected to increase modestly from the amended budget level based on updated assumptions for fiscal year 2016 actuals and trends in the third quarter. Major factors affecting expenditures include: an FLSA overtime retro payment; and several expenditures with revenue offsets. The General Fund is projected to end the fiscal year at approximately the same fund balance as last year at \$16.3 million.

The City's discretionary revenues are in large part projected to exceed their budgeted levels. Departmental program revenues however are anticipated to fall short of their targets. Particularly Police jail reimbursements and grant revenue, as well as Fire permit and reimbursement revenue are not projected to meet the budgeted level. Overall, General Fund revenues are projected at \$0.7 million above the current amended budget. Revenue shortfalls are projected to be fully offset with improvements in the Other Local Taxes category of \$0.9 million, and Property Taxes of \$0.2 million.

Departmental expenditures are tracking within budgeted levels as the majority of the departments are projected to realize savings as of the end of the fiscal year. Personnel Services are currently projected to end the fiscal year at a savings of \$0.7 million below the amended budget. Departmental expenditures for supplies and services are projected to increase by \$0.4 million over the amended budget. Utility expenditures are projected to end the year at a savings of \$0.3 million below the amended budget. As stated in the first quarter report, salary savings levels are not projected to be achieved based on the current trend. This is primarily due lower than anticipated employee attrition rates. Salary savings are currently budgeted at \$1.6 million in the General Fund reflecting staff's first quarter recommendation to recognize the savings in the voluntary work furlough program and health insurance savings costs and apply these savings to reduce the budgeted salary savings in the Non-Departmental budget. Staff will continue to monitor salary savings levels and look for other potential cost saving measures in order to remain within budget.

As previously discussed in the 2nd quarter report, the City will receive additional sales tax revenue as a result of the ending of the Triple Flip allocation. These revenues will help address expenditures for major projects that were not included in the fiscal year 2015-16 adopted budget, but will likely require funding in the current fiscal year. The majority of the triple flip allocation has been appropriated for various projects detailed in the Council staff report that accompanies this report.

Revenues

The following table compares the projected revenues included in the adopted budget and the updated revenue projections for discretionary and departmental program revenues. Overall, General Fund revenues are projected at \$0.65 million above the current amended budget. The major variances are as follows:

- A projected \$1.0 million decrease in Charges for Services revenues due to lower Police jail reimbursements.
- A \$0.5 million decrease in projected Utility User Tax based on the current fiscal year trend and reflecting previous fiscal year actual revenues.
- A \$0.3 million projected decrease in Revenue from Other Agencies due to lower grant revenues.
- A \$0.7 million projected decrease in Other Revenues from prior year revenues that are no longer anticipated to be received.
- A projected \$1.0 million increase in Transient Occupancy Taxes based on an improved growth trend and previous fiscal year collections.
- A \$0.7 million increase in other revenues due to projected higher reimbursement revenue.
- A \$0.4 million increase in Sales Tax revenue.

General Fund Revenues

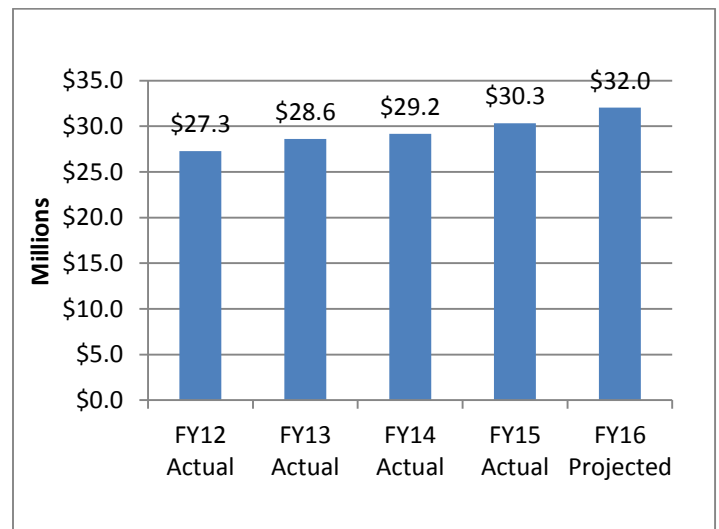
Category	Amended Budget as of 3/31/16	Q3 Projected 6/30/16	Variance
Property Taxes	\$ 30,052,206	\$ 30,267,152	\$ 214,946
Sales Tax	\$ 25,720,448	\$ 26,073,710	\$ 353,262
Sales Tax In Lieu	\$ 5,981,593	\$ 5,981,593	\$ -
Motor Vehicle License	\$ 18,887,001	\$ 18,934,512	\$ 47,511
Other Revenue	\$ 12,195,378	\$ 12,882,703	\$ 687,325
Transfers In	\$ 10,022,271	\$ 9,993,254	\$ (29,017)
Franchise	\$ 11,426,283	\$ 11,525,886	\$ 99,603
Charges for Services	\$ 7,748,531	\$ 6,804,427	\$ (944,104)
Revenue from Other Agencies	\$ 2,730,917	\$ 2,526,127	\$ (204,790)
Utility Users Tax	\$ 6,500,000	\$ 5,959,903	\$ (540,097)
Transient Occupancy Taxes	\$ 2,890,853	\$ 3,826,580	\$ 935,727
Use of Money & Property	\$ 2,733,590	\$ 2,613,650	\$ (119,940)
Other Local Taxes	\$ 2,245,437	\$ 2,223,353	\$ (22,084)
Licenses and Permits	\$ 1,309,447	\$ 1,263,747	\$ (45,700)
Fines, Forfeitures, Penalties	\$ 1,133,800	\$ 1,287,672	\$ 153,872
Real Property Transfer Tax	\$ 962,865	\$ 1,023,661	\$ 60,796
Total General Fund	\$142,540,620	\$143,187,930	\$ 647,310

Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 22.2% of General Fund revenues in the fiscal year 2015/16 amended budget. HdL Companies, the City's Sales Tax consultant, has provided data for the third fourth of calendar year 2015. They report that the change in sales tax receipts between third quarter calendar year 2014 and third quarter calendar year 2015 increased by 2.6% in Chula Vista. General Consumer Goods represents the largest major industry group for Sales Tax generation. In this category, the change in Sales Tax increased 1.4% in Chula Vista when compared to the same quarter for 2014. Other sectors that also increased included: Building and Construction 28.4%, Restaurants and Hotels 6.9% and Autos and Transportation 11.6%.

The projection for Sales Tax revenues has been increased to reflect improved economic activity.

The following chart represents actual sales tax collections since fiscal year 2011/12 and the projection for fiscal year 2015/16.

Sales Tax and Sales Tax in Lieu

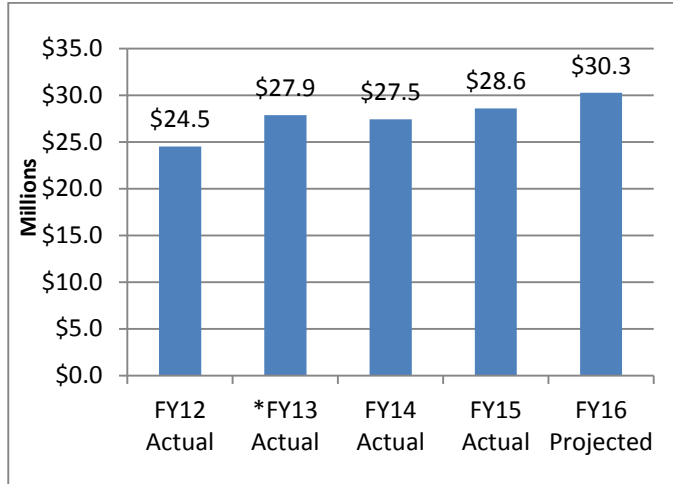


Property Taxes - The City of Chula Vista receives property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 21.1% of General Fund revenues in the fiscal year 2015/16 budget.

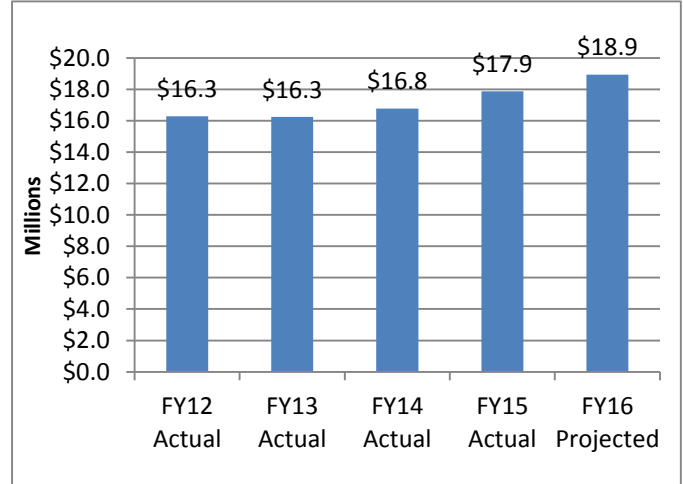
The Property tax revenue projection has been increased by \$0.2 million over the second quarter to reflect the receipt of Redevelopment Agency and residual pass through payments. Overall the initial assumption for

property tax revenue growth of 5.6% remains unchanged from the second quarter projection.

Property Tax



Motor Vehicle License Fee



Motor Vehicle License Fee (VLF) – Since the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Beginning in 2005/06, the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross assessed valuation. Due to this change in the formula by the State, the majority of the City's VLF revenues fluctuate with changes in assessed values in the City.

VLF revenue projections were revised to in the first quarter to reflect the change in the city-wide assessed valuation projection growth rate of 5.6% for fiscal year 2015-16 versus the 4% projected growth rate assumed in the adopted budget. The projection for VLF revenues remained unchanged for the second quarter. The third quarter projection indicates that VLF revenues will increase by \$46,000 over the second quarter projection based on the current trend,

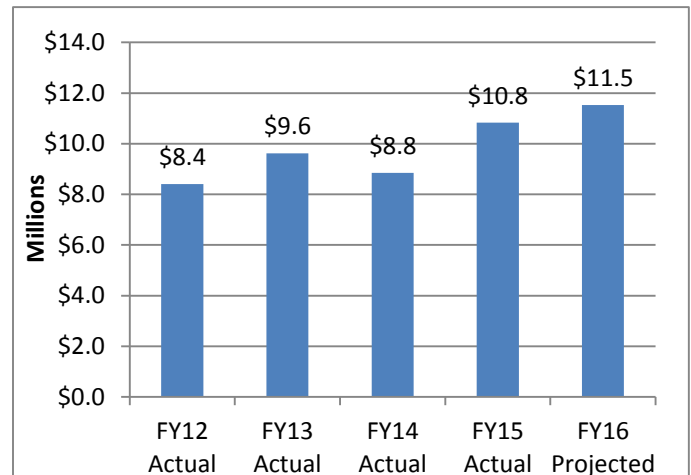
The following chart represents actual VLF revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16.

Franchise Fees - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E collects the franchise fee from Chula Vista customers and remits these revenues to the City. Trash franchise fees and cable fees are based on fixed rates.

Franchise Fee revenues have been revised in the third quarter and are projected to exceed the second quarter projection by \$0.1 million. This increase is attributed to a higher than anticipated monthly average collection of Franchise Fee revenues from the City's franchise operators.

The following chart represents actual franchise fee revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16. Fiscal year actual 2012-13 revenues reflect previously accrued Franchise Fee revenues that were realized by the City.

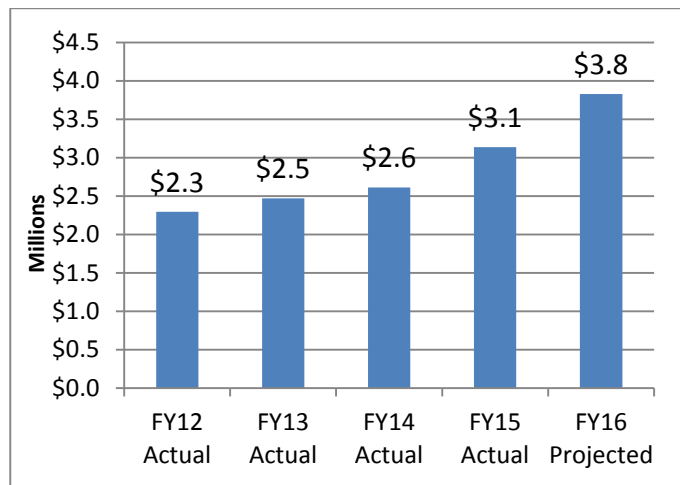
Franchise Fees



Transient Occupancy Tax (TOT) - The City receives 10% of hotel and motel room rates for stays less than 30 days. Projections for TOT revenues have been updated to reflect the positive trend that began in fiscal year 2012 and has subsequently continued. The projection for fiscal year 2015/16 was been increased by \$0.9 million when compared to the adopted budget in the second quarter based on the previous fiscal year's growth trend, and \$0.3 million due to previous fiscal year collections that were received the current fiscal year. The third quarter projection for TOT revenues remains unchanged.

The following chart represents actual TOT revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16.

Transient Occupancy Tax (TOT)

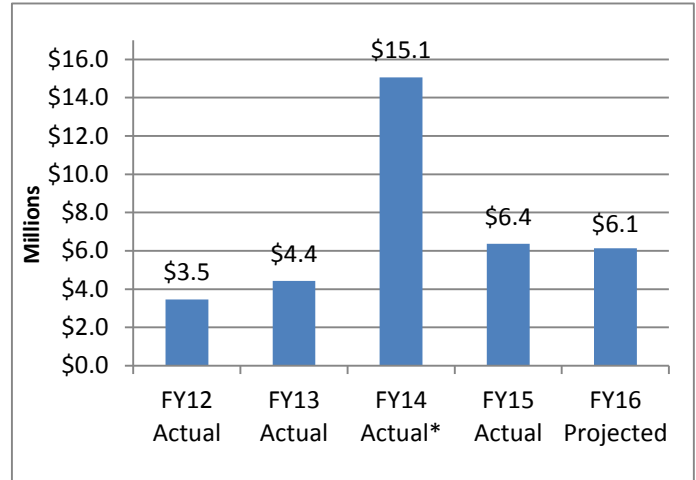


Utility Users Tax (UUT) - The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecom at the rate of 4.75% of gross receipts. The UUT on natural gas services is \$0.00919 per therm and \$0.00250 per kilowatt on electricity services, which equates to approximately a 1% tax.

The projection for UUT revenues was reduced by \$0.37 million from the adopted budget in the second quarter. This downward trend has continued through the third quarter as the projection for UUT revenues has been decreased by an additional \$0.17 million. Overall, UUT revenues are estimated to be under budget by \$0.6 million. This decrease is partially offset by \$0.2 million from realized prepaid wireless UUT revenues that became effective on January 1, 2016.

The following chart reflects actual UUT revenue since fiscal year 2011/12. Fiscal year 2015/16 is projected and does not reflect actual collections.

Utility Users Tax (UUT)



*Increased fiscal year 2013/14 Utility User's tax revenue reflect a mid-year appropriation (Council resolution 2013-092) of previously collected wireless telecommunication related tax revenue that was utilized to fund attorney and City administrative costs pertaining to a City class-action lawsuit.

Expenditures

The General Fund's amended budget reflects the Council adopted budget of \$139.8 million, Council approved mid-year appropriations of \$3.3 million, and \$5.3 million of prior year encumbrances that were carried over into the current fiscal year. As of the end of the First Quarter, the amended budget totals \$148.4 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of March 31, 2016. In total, Departments have expended 69% of the General Fund budget after 75% of the fiscal year has elapsed.

General Fund Expenditures as of 3/31/2016

Department	Amended Budget as of 3/31/16	Expended as of 3/31/16	% Expended
City Council	\$ 1,499,840	\$ 989,621	66%
Boards & Commissions	\$ 77,520	\$ 48,311	62%
City Clerk	\$ 942,667	\$ 575,198	61%
City Attorney	\$ 3,038,310	\$ 1,926,864	63%
Administration	\$ 3,375,975	\$ 2,264,266	67%
Information Tech Svcs	\$ 3,604,224	\$ 2,395,763	66%
Human Resources	\$ 2,600,103	\$ 1,759,485	68%
Finance	\$ 3,720,758	\$ 2,481,583	67%
Non-Departmental	\$ 12,149,286	\$ 9,149,171	75%
Animal Care Facility	\$ 2,988,449	\$ 2,032,290	68%
Dev Services (GF)	\$ 2,482,554	\$ 1,682,263	68%
Police	\$ 49,528,234	\$ 35,032,382	71%
Fire	\$ 26,838,645	\$ 19,060,935	71%
Public Works	\$ 27,359,798	\$ 17,929,563	66%
Recreation	\$ 4,332,469	\$ 2,768,722	64%
Library	\$ 3,875,332	\$ 2,640,620	68%
Total Expenditures	\$ 148,414,164	\$ 102,737,037	69%

The following table reflects the projected expenditures for June 30, 2016. As noted on the table, all of the operating departments with the exception of the Fire Department are projecting to be within budget or realize savings in the current fiscal year. A \$1.4 million deficit is projected for the Non-Departmental budget due to budgeted salary savings levels that are not projected to be achieved based on the trend identified in the first quarter. In an effort to mitigate this short-fall, Council implemented staff's recommendation to decrease the salary savings level and offset it with savings from the voluntary work furlough program and health insurance savings costs as part of the budget adjustments approved in the first quarter. The projected deficit in the Fire Department is due to higher personnel costs due to overtime and projected higher

supplies and services costs due to a Fire Academy that is scheduled to take place in the current fiscal year. The deficit will be largely mitigated through the appropriation of strike team and other reimbursement revenues that have been received by the Fire Department.

Overall, General Fund expenditures are projected to be over budget by \$0.1 million in the current fiscal year as a result of encumbrance savings targets assigned to departments. This deficit however, should be corrected with the budget amendments in the following paragraph.

For the third quarter, the major staff recommended budget adjustments include funding of \$0.4 million for the agreement reached between the City and the membership of the International Association of Firefighters (IAFF) regarding a discrepancy in the FLSA premium overtime payout to IAFF members that will occur in the current fiscal year. In addition, an appropriation of \$0.3 for the capital asset lease financing to acquire a fire brush rig is also included as well as a \$0.2 appropriation to the Public Works Department for reimbursement revenue received as part of a city-wide drought turf conversion project. The net fiscal impact to the General Fund of these and the other staff recommended adjustments is \$(0.06) million. These recommendations will be included in the Council staff report that accompanies this report.

Staff will continue to work to address these issues and mitigate potential impacts to the General Fund.

General Fund Projections by Department
for June 30, 2016

Department	Amended Budget as of 3/31/16	Q3 Projected 6/30/16	Variance
City Council	\$ 1,499,840	\$ 1,435,735	\$ 64,105
Boards & Commissions	\$ 77,520	\$ 77,520	\$ -
City Clerk	\$ 942,667	\$ 907,421	\$ 35,246
City Attorney	\$ 3,038,310	\$ 3,000,306	\$ 38,004
Administration	\$ 3,375,975	\$ 3,302,212	\$ 73,763
Information Tech Svcs	\$ 3,604,224	\$ 3,483,914	\$ 120,310
Human Resources	\$ 2,600,103	\$ 2,433,485	\$ 166,618
Finance	\$ 3,720,758	\$ 3,491,642	\$ 229,116
Non-Departmental	\$ 12,149,286	\$ 13,550,371	\$ (1,401,085)
Animal Care Facility	\$ 2,988,449	\$ 2,936,802	\$ 51,647
Dev Services (GF)	\$ 2,482,554	\$ 2,446,964	\$ 35,590
Police	\$ 49,528,234	\$ 49,044,793	\$ 483,441
Fire	\$ 26,838,645	\$ 27,143,010	\$ (304,365)
Public Works	\$ 27,359,798	\$ 27,194,366	\$ 165,432
Recreation	\$ 4,332,469	\$ 4,283,820	\$ 48,649
Library	\$ 3,875,332	\$ 3,804,676	\$ 70,656
Total Expenditures	\$ 148,414,164	\$ 148,537,037	\$ (122,873)

Budget Transfers

The following table reflects the administrative budget transfers that have been approved through the third quarter. These changes result in no net fiscal impact to the General Fund budget and are within the Council policy allowing for transfers up to \$15,000.

Summary of General Fund Budget Transfers

Date	Description	Amount	From/To
Development Services GF			
Jul-15	Transfer for copier lease	\$500	Supplies & Services to Capital
Human Resources			
Jul-15	Transfer to Other Expenses (Refund)	\$56	Supplies & Services to Other Expenses
Boards and Commissions			
Sep-15	Transfer for Personnel Services	\$100	Supplies & Services to Personnel
Public Works			
Nov-15	Transfer for Turf Replacement	\$15,000	Utilities to Supplies & Services
Nov-15	Transfer for Vehicle Outfitting	\$11,245	Capital to Supplies & Services
Nov-15	Transfer for Emergency Facility Repairs	\$15,000	Personnel to Supplies & Services
Nov-15	Transfer for Park Sports Field Lighting	\$15,000	Utilities to Supplies & Services
Administration			
Jan-16	Transfer for Consulting Services	\$15,000	Personnel to Supplies & Services
Fire			
Jan-16	Cell Phone Stipend Adjustment	\$1,530	Supplies & Services to Personnel
Animal Care Facility			
Mar-16	Transfer for Animal Clinic's Doctors Payments	\$15,000	Personnel to Supplies & Services
Human Resources			
Mar-16	Transfer for copier lease	\$352	Supplies & Services to Personnel

Third Quarter Budget Amendments

Third Quarter expenditure appropriations approved through March 31, 2016 totaled \$3,331,493. The City Council approved changes to budgeted revenues of \$2,734,451. Combined, these changes result in a positive net impact of \$597,042.

The City Council approved the following budget amendments during through the first quarter:

Summary of General Fund Budget Amendments

Date	Description/Dept	Revenue	Expenditure	Net Impact
7/14/2015	DHS Contraband Kit Purchase (Police)	\$ 21,599	\$ 21,599	\$ -
7/21/2015	HIDTA Position Reclassification (Police)	\$ 1,479	\$ -	\$ (1,479)
7/28/2014	FA Supervising Intel Analyst Admin Fee Revenue (Police)	\$ 4,825	\$ -	\$ (4,825)
9/15/2015	San Ysidro Health Clinic Amended Lease (Non-Departmental)	\$ 40,000	\$ 40,000	\$ -
8/5/2014	610 Bay Bl Property Improvements for AIM Lease (Non-Departmental)	\$ 10,000	\$ 10,000	\$ -
10/6/2014	Unrepresented, Conf./Non Conf. MOU Salary Adjustments (Various)	\$ 244,511	\$ 244,511	\$ -
11/3/2015	Animal Care Facility Roof Repair (Animal Care Facility)	\$ 33,736	\$ 33,736	\$ -
11/3/2015	Western Council of Engineers MOU Salary Adjustments (Various)	\$ 29,590	\$ 29,590	\$ -
11/3/2015	1st Quarter Budget Adjustments (Various)	\$ 916,295	\$ 916,295	\$ -
11/3/2015	Chula Vista Employees Assoc. MOU Salary Adjustments (Various)	\$ 301,020	\$ 301,020	\$ -
12/15/2015	Attorney Services for Case at Bay and E. (Non-Departmental)	\$ 460,000	\$ 460,000	\$ -
2/23/2016	2nd Qtr. Budget Adjustments (Various)	\$ 441,396	\$ 1,044,742	\$ 603,346
2/23/2016	California Public Library Broadband Proj. Grant (Library)	\$ 30,000	\$ 30,000	\$ -
3/8/2016	Application for U3 Advisors Inc. (Non-Departmental)	\$ 200,000	\$ 200,000	\$ -
	Total Appropriations to date:	\$2,734,451	\$ 3,331,493	\$ 597,042

- The above table does not reflect a -\$49,518 accounting adjustment to the Non-Departmental budget that was made as a result of the close-out of a capital improvement project (CIP).