

## OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2018 through December 31, 2017, and projections for the remainder of the year ending on June 30, 2018. 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.

This report also includes a brief status update of the Measure P revenue as well as an update on the City's long-term financial plan (LTFP). The LTFP is a forecast of ten future years based upon information available at the time and is updated annually to reflect the most current information available. This quarterly financial report contains an update of the years up until 2027 (attached) and a discussion about the next five years. The LTFP was first presented with the City's Fiscal Year 2017-18 budget.

## NATIONAL, STATE, AND REGION ECONOMIC UPDATE

The National Forecast<sup>1</sup> - In the December 2017 UCLA Anderson Forecast (final quarterly report for 2017), Senior Economist David Shulman projects mixed results for the economy as the United States awaits the outcome of several programs and initiatives. In his outlook for the national economy, Shulman notes that the near-term outlook is optimistic, anticipating a 3% growth in the economy for 2017 due to strong equipment spending, the discussion related to the proposed tax bills, and an uptick in consumer wages and spending. Riding the momentum generated in late 2017, Shulman expects the 3% economic growth rate to continue through the second quarter of 2018.

However, as the unemployment rate drops below 4% and employment growth stalls in the face of a labor shortage, economic growth is anticipated to drop back to a 2% growth rate. By the end of the forecast horizon in 2019, real GDP growth could drop to below 1.5% as the outlook becomes uncertain.

Within the December forecast, Shulman cites several activities that could impact the direction of the

economy. These include the uncertainty related to the proposed tax bills, a projected increase in defense spending, a change in the Fed chairman, and an increase in wage growth leading to an increase in inflation. As the December forecast (most recent) was developed in late November 2017, there was uncertainty related to the components of the tax bills that were making their way through Congress. Future forecasts will refine the modeling based upon the approved tax bill. Shulman was certain that the next few years would reverse the seven-year annual decline in defense spending. The December forecast projects real defense spending will increase by 2% and 2.7% in 2018 and 2019, respectively. A new Fed Chair, Jerome Powell, will be appointed in 2018. As Powell's views on monetary policy are similar to those held by the current Fed Chair, Janet Yellen, no significant changes are anticipated. Shulman expects the gradual interest rate normalization policy that has been underway in 2017 will continue into 2019. By the end of 2019, the fed funds rate is projected to be approximately 3%. Lastly, the December forecast projects the future quarterly track for inflation will be in excess of 2% throughout the forecast horizon. The primary source of the rising rate of inflation will be a significant rebound in wage growth. After trending in the 2% range, Shulman forecasts acceleration in total compensation growth to approximately 4% by late 2018 on a year-over-year basis.

The California Forecast<sup>2</sup> - UCLA Anderson Senior Economist Jerry Nickelsburg notes two key issues that may impact projections from previous forecasts. First, the new tax bill may dampen the housing market, which will reduce economic growth in the state. Second, the investment incentive, in particular the bringing forward of investment because of expensing, increases the forecasted growth rate for employment and income in 2018, though reduces it slightly by the end of 2019. Nickelsburg states, "The most likely outcome of these two opposite economic forces is for California's unemployment rate to fall to 4.6% by the end of the forecast period (2019)".

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<sup>2</sup> Source: UCLA Anderson Forecast: A Downshift in Growth Expected for the Nation and California; retrieved from URL: <http://www.anderson.ucla.edu/centers/ucla-anderson-forecast/december-2017-economic-outlook>

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<sup>1</sup> Source: UCLA Anderson Forecast, December 2017

The Forecast projects the total employment growth to be 1.2%, 1.5%, and 1.1% in 2017, 2018, and 2019, respectively. Payrolls are anticipated to grow at about the same rate over the forecast period. Real personal income growth is forecasted to be 1.6%, 3.1% and 3.6% in 2017, 2018, and 2019, respectively. Homebuilding is anticipated to reach approximately 121,400 units per year at the end of the forecast horizon.

The San Diego Forecast<sup>3</sup> -The University of San Diego (USD) Burnham-Moores Center for Real Estate's (BMC) Index of Leading Economic Indicators for San Diego County rose 0.6 percent in November and another 1.4 percent in December. December's sharp rise was due to huge gains in building permits, along with strong gains for initial claims for unemployment insurance, online help wanted advertising, and the outlook for the national economy. Local stock prices and consumer confidence were both up slightly in December.

December's gain was the largest since March 2015 and pushed the USD Index (149.0) close to an all-time high (the Index topped the 150 level for a few months back in 2000). It also marked the 14th straight month in which the Index was either positive or unchanged. The outlook for the local economy remains positive through the end of 2018. Wage and salary employment growth of about 25,000 is expected for next year. That number has been higher in the past, but with the local unemployment rate at an all-time low, job growth could be limited by a shortage of workers. If wages increase due to the tight labor market, that might help in attracting workers to the region and help with housing affordability.

### San Diego Index of Leading Economic Indicators San Diego County, 2012 - 2017



### GENERAL FUND PROJECTIONS FOR FISCAL YEAR 2017-18 AFTER SECOND QUARTER

**General Fund Reserves** – Chula Vista's 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; and
4. Establish the reserves necessary to meet known and unknown future obligations and ability to respond to unexpected opportunities.

The following table displays the unaudited General Fund reserves as of June 30, 2017 as well as the projected General Fund reserves for June 30, 2018.

<sup>3</sup> Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, December 2017; retrieved from URL: <http://home.sandiego.edu/~agin/usdle/index.html>



General Fund Reserve	Amended Budget (millions)	Projected Budget (millions)
Reserves - July 1, 2017	\$ 20.02	\$ 20.02
Revenues & Transfers In <sup>(1)(2)</sup>	\$ 150.85	\$ 152.69
Expenditures & Transfers Out <sup>(3)(4)(5)</sup>	\$ 150.85	\$ 153.10
Projected Surplus/(Deficit)	\$ -	\$ (0.41)
Projected Fund Balance for June 30, 2018	\$ 20.02	\$ 19.61
<b>Reserve as a Percentage of Operating Budget</b>	<b>13.27%</b>	<b>12.84%</b>

<sup>1</sup>Amended Budget figure excludes \$18.7 million in bond proceeds and \$17.8 million in pass-through revenues generated from Measure P sales tax. Measure P revenues accounted for in separate Measure P Fund.

<sup>2</sup>Projected Budget figure excludes \$17.8 million in pass-through revenues generated from Measure P sales tax. Measure P revenues accounted for in separate Measure P Fund.

<sup>3</sup>Figure excludes \$18.7 million in bond proceeds and \$17.8 million in transfers out related to funds generated Measure P sales tax. Measure P revenues accounted for in separate Measure P Fund.

<sup>4</sup>Figure excludes \$17.8 million in transfers out of the General Fund to separate Measure P Fund. Measure P expenditures accounted for in separate Measure P Fund.

<sup>5</sup>The Original Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$5.7 million that were carried forward into the fiscal year 2017/18 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2017 and are therefore not included in the above table.

## Overview

At the end of the second quarter, the City's financial outlook is projected to be primarily unchanged as the revised projections anticipate growth in expenditures slightly outpacing growth in revenues. Based on current projections, revenues are anticipated to increase by \$3.3 million and expenditures are anticipated to increase by \$3.7 million for a difference of approximately \$406,000.

A primary driver of the increase in revenues and expenditures is a projected increase in funds generated by the Measure P Sales Tax bill. Based on current projections, funds generated by Measure P are anticipated to exceed current projections by approximately \$1.5 million for the fiscal year. This amount is reflected in both revenues and expenditures as these funds are received by the City's General Fund as revenue but are then transferred out (expenditure) to the 2016 Measure P Fund to track and monitor these funds. As these funds do not impact the City's operating budget these funds have been excluded from the previous table.

Exclusive of Measure P funds, the primary factors impacting the projected increase in expenditures are: the Fire Department undertaking a fire academy to support department staffing levels; and providing additional field equipment and technology support for the Police Department. The Fire and Police

Department have identified revenues to either partially or completely offset the increase in expenditures. For revenues, Transient Occupancy Tax and Sales Tax projections are trending lower than the Amended Budget projection, but the decline is anticipated to be offset by increases in other revenue categories. Additional information related to General Fund expenditures and revenues are provided within this report.

## Revenues

The following table shows the Amended Budget and Projected Budget revenues. The budgeted amounts include all previously approved budget amendments as well as the change in projections included in this report. Overall, General Fund revenues are projected to increase by approximately \$3.3 million above the current Amended Budget amounts. This is a result of an increase in various revenue categories and a slight projected decrease in the Transient Occupancy Tax and Sales Tax projections as detailed in the following table.

Revenue Category	Amended Budget	Projected Budget	Variance
Property Taxes	\$ 33,620,932	\$ 33,691,992	\$ 71,060
Sales Tax	\$ 33,767,466	\$ 33,737,411	\$ (30,055)
Measure P Sales Tax	\$ 16,320,000	\$ 17,796,000	\$ 1,476,000
PT in lieu of Motor Vehicle License Fee (VLF) <sup>1</sup>	\$ 20,844,039	\$ 21,164,029	\$ 319,990
Franchise Fees	\$ 11,968,646	\$ 11,968,646	\$ -
Utility Users Tax	\$ 5,860,328	\$ 5,860,328	\$ -
Transient Occupancy Taxes	\$ 4,316,267	\$ 4,036,267	\$ (280,000)
Other Revenue	\$ 10,881,080	\$ 11,810,903	\$ 929,823
Transfers In	\$ 11,260,552	\$ 11,750,177	\$ 489,625
Charges for Services	\$ 8,255,255	\$ 8,502,923	\$ 247,668
Revenue from Other Agencies	\$ 1,951,180	\$ 1,989,144	\$ 37,964
Use of Money & Property	\$ 2,921,115	\$ 2,963,307	\$ 42,192
Other Local Taxes	\$ 1,424,643	\$ 1,424,643	\$ -
License and Permits	\$ 1,524,632	\$ 1,541,039	\$ 16,407
Fines, Forfeitures, Penalties	\$ 1,075,423	\$ 1,079,062	\$ 3,639
Real Property Transfer Tax	\$ 1,173,550	\$ 1,173,550	\$ -
<b>TOTAL REVENUES</b>	<b>\$ 167,165,108</b>	<b>\$ 170,489,421</b>	<b>\$ 3,324,313</b>

<sup>1</sup>Property Tax in Lieu of Vehicle License Fees was previously accounted for as Motor Vehicle License fees (VLF) in the State Revenue category. VLF was replaced by a backfill from property taxes following the permanent reduction of the VLF rate from 2% to 0.65% in 2004.

The City receives revenue from multiple sources, the primary sources being Sales Tax, Property Tax, Property Tax in lieu of Vehicle Licenses Fees (VLF), Franchise Fees, Utility User Fees, and Transient Occupancy Tax. These are considered the major revenue sources for the City. Changes in projections to these sources have the greatest impact on the

City's financial projections. The following are brief status updates on these revenue sources.

**Sales Tax (exclusion of funds generated by Measure P)** – Revenue from the Bradley-Burns sales tax (1% of retail sales) continues to be the City's largest revenue source as projected for Fiscal Year 2017/18. This revenue (totaling approximately \$33.7 million) makes up approximately 20% of General Fund revenues for Fiscal Year 2017/2018.

Detailed collection data is provided by the State Board of Equalization and analyzed by the City's sales tax advisor HdL Companies. The most current data available is for the third calendar year quarter, July through September of 2017. Compared to the same prior-year quarter, sales tax receipts grew by a modest 5%, although there were variations within the seven major industry categories. The Autos and Transportation category showed a 3% decline in sales while the Business and Industry category increased by 8%. The largest producing industry category, in terms of gross sales, is General Consumer Goods grew by 6% in comparison to the same 2016 quarter. Other sectors experienced increases when compared to the same quarter in 2016; these included Fuel & Service Stations (8%), Restaurants and Hotels (1%), Building and Construction (16%) and Food & Drugs (5%).

City staff will continue to monitor sales taxes for the impact of internet sales. Taxes collected by on-line retailers go into a countywide pool and are distributed to the Cities based upon share of countywide sales rather than by population. Chula Vista represents 8.5% of the population of the County, but only 6% of the County sales. This method tends to disfavor Chula Vista and may result in further revisions to sales tax projections.

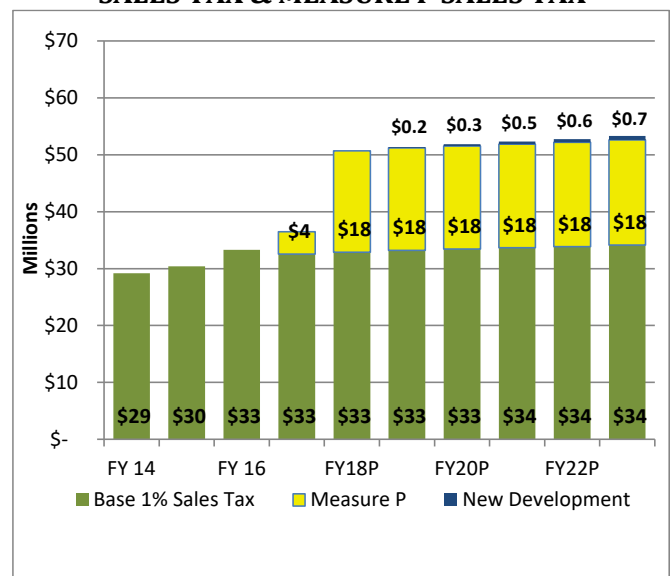
The Sales Tax chart below represents actual Sales Tax collections since Fiscal Year 2012/13 and the projection for Fiscal Year 2017/18.

**Measure P Sales Tax** – Revenue allocations from the Measure P Sales Tax for the second quarter of the fiscal year, \$4.7 million, exceed allocations received in the first quarter of the fiscal year, \$3.9 million, by

approximately \$0.8 million. As with the Sales Tax revenue category, the General Consumer Goods (33%), Autos and Transportation (19%), and Business and Industry (14%) categories make up a majority (66%) of the driving factors in funds generated by Measure P. Based upon data from HdL Companies, the projected year-end revenue from Measure P has been increased from \$16.3 million to \$17.8 million, an increase of approximately \$1.5 million from the Amended Budget projections. Staff will continue working with HDL over the coming quarter to refine these projections and will report back in the next quarterly financial report.

The following chart represents actual Sales Tax collections for fiscal years 2013/14 through 2016/17. The remaining chart columns display the projections from the City's Long-Term Financial Plan estimates, including projections for revenue generated by new development. The projections for the next five years have a conservative modest growth estimate of approximately 1.0% annually, compared to an historical growth average of 3.2% for the prior five years.

**SALES TAX & MEASURE P SALES TAX**



Note: Beginning with Fiscal Year 2017, Sales Tax revenue is being recorded using a 90- rather than 60-day accrual basis. As a result, the Base 1% revenue for Fiscal Year 2016/17 is inflated by the September 2016 clean up payment (\$744,000) that was accrued

to Fiscal Year 2017 under the old 60-day accrual schedule.

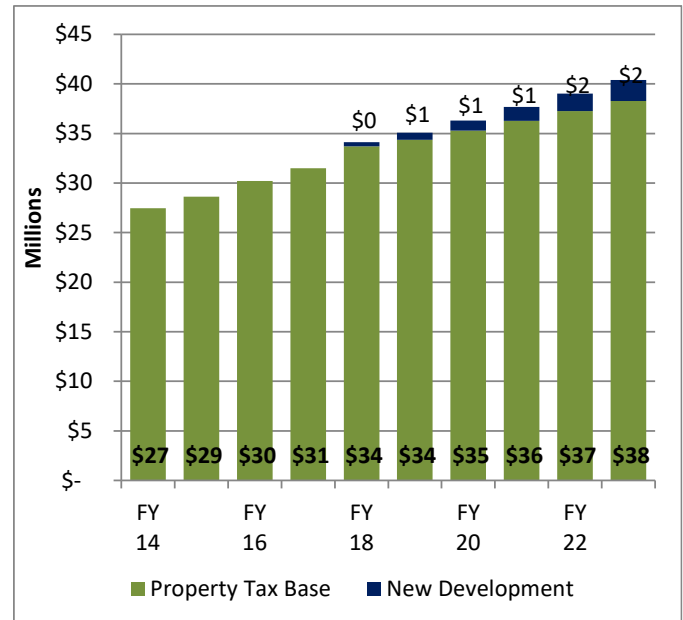
**Property Taxes** - The City of Chula Vista receives a portion of the property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City’s second largest revenue source, representing approximately 20% of projected General Fund revenues for Fiscal Year 2017/18. The assessed value of all property in the City of Chula Vista is projected to grow by 6.01% in Fiscal Year 2017/18 which mirrors the average growth throughout the County of San Diego.

In its June 2017 annual report on property values, the County Assessor’s office attributed the increase, the fifth year of countywide increases, to the consistent steady growth in the real estate market. With median home prices having grown annually by 5-6% for several years, the Assessor projected that this growth trend would likely continue in the near future. The City of Chula Vista’s long-term financial plan, however, has been developed using growth rate of 3% for the property tax on current secured (land and improvements) and 1% on current unsecured (business equipment, boats & aircraft) property and other. These growth rates are more conservative but likely more reliable than relying upon a 5% and 6% growth factor.

Worth pointing out is that the Property Tax In Lieu of Vehicle License Fee is actually property taxes that are redistributed to municipalities as a result of 2004 legislation. These are shown as a separate revenue category from Property Tax for comparison purposes. The growth in this revenue is based upon the growth in the City’s assessed valuation. The growth rate that the City of Chula Vista experienced in Fiscal Year 2017/18 was 6.1%, compared to the budgeted estimate of a 3% growth.

The chart below shows actual Property Tax revenues since Fiscal Year 2013/14 and the projections for Fiscal Years 2017/18 through 2022/23, including projected growth associated with new development.

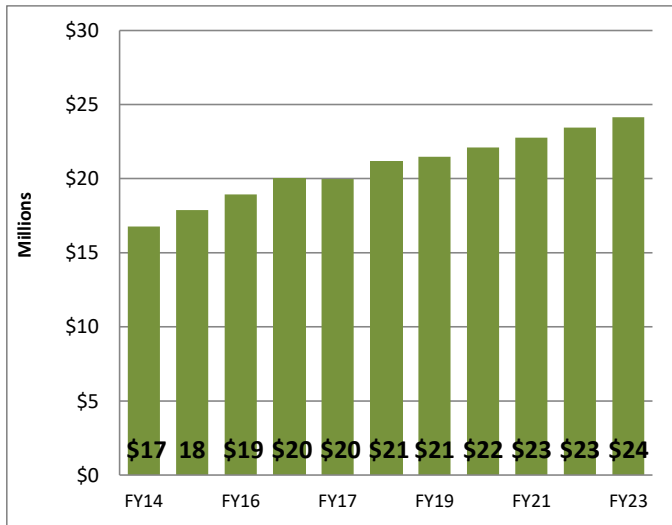
**PROPERTY TAXES**



**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.

The projection for VLF revenues has been revised upward \$0.3 million to \$21.2 million in the second quarter reflecting the improvement in assessed valuations. The following chart represents actual VLF revenues since Fiscal Year 2013/14 and the projection for Fiscal Years 2017/18 through 2022/23. The City projects a 3% growth rate for these revenues, which mirrors the growth rate for property taxes.

### MOTOR VEHICLE LICENSE FEE

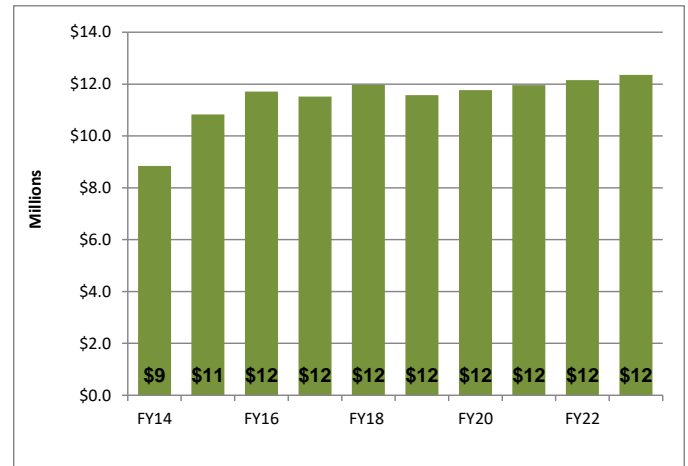


**Franchise Fees** - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E collects the franchise fee from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

There is no change in in the projection for Franchise Fee revenues in the 2<sup>nd</sup> Quarter. Franchise Fee revenues are projected at the budgeted level \$12.0 million. This is an increase over Fiscal Year 2016/17 actuals of approximately 4%.

The following chart represents actual franchise fee revenues since Fiscal Year 2013/14 and the projection for Fiscal Years 2017/18 through 2022/23. The City projects a 3% growth rate for these revenues from Fiscal Year 2018/19 to through Fiscal Year 2022/23.

### FRANCHISE FEES

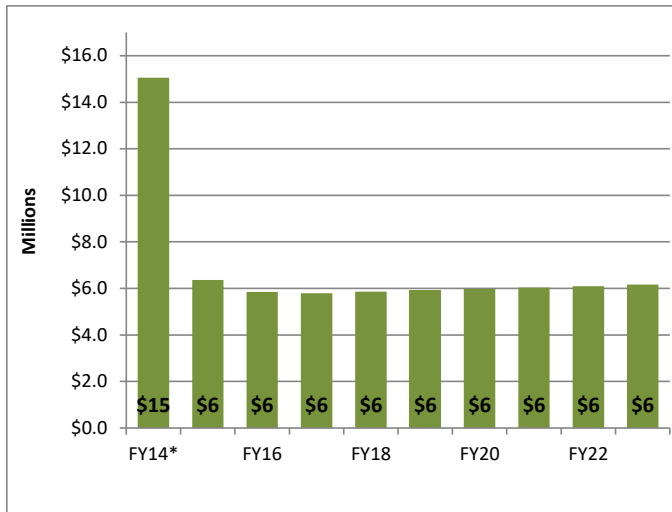


**Utility Users Tax (UUT)** - by The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecom at the rate of 4.75% of gross receipts. The UUT on natural gas services is \$0.00919 per therm and \$0.00250 per kilowatt on electricity services, which equates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

UUT revenues are anticipated to be in-line with the amounts projected in the Amended Budget.

The following chart reflects actual UUT revenue since Fiscal Year 2013/14 and the projection for Fiscal Years 2017/18 through 2022/23. The City projects a 1% growth rate for these revenues from Fiscal Year 2018/19 to through Fiscal Year 2022/23.

### UTILITY USERS TAX



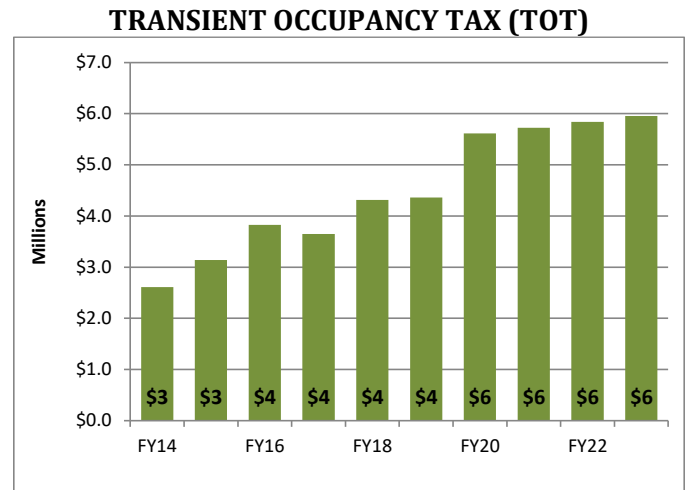
\*Note: Increased fiscal year 2013/14 Utility User’s tax revenue reflect a mid-year appropriation (Council resolution 2013-092) of previously collected wireless telecommunication related tax revenue that was utilized to fund attorney and City administrative costs pertaining to a City class-action lawsuit.

**Transient Occupancy Tax (TOT)** - The City receives 10% of hotel and motel room rates for stays less than 30 days. TOT revenues have reflected a positive trend that began in fiscal year 2012 and has subsequently continued.

The potential for significant revenue growth is feasible provided additional hotels are built capturing the market created by the growth in the eastern section of the City. Several impending new hotel developments are being proposed in the City, primarily in the Millenia and Bayfront projects.

Fiscal year 2017/18 TOT revenues are estimated at \$4.3 million based on the previous fiscal year’s growth trend and a new hotel that was opened this fiscal year. TOT revenues are projected to decrease slightly in the 2<sup>nd</sup> quarter, estimated to come in lower than the budgeted level by \$0.3 million. However, staff will continue to monitor these revenues for the remainder of the fiscal year, and will update this projection as part of future quarterly reports.

The following chart represents actual TOT revenues since Fiscal Year 2013/14 and the projection for Fiscal Year 2017/18 through 2022/23.



### Expenditures

The General Fund’s amended budget reflects the Council adopted budget of \$166.6 million, Council approved first quarter appropriations of \$0.6 million, and \$5.7 million of prior year encumbrances that were carried over into the current fiscal year. As of the end of the second quarter, the amended budget totals \$172.9 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2017. In total, Departments have expended \$82.5 million or 48% of the General Fund budget after 50% of the fiscal year has elapsed. Overall, departmental expenditures are tracking consistent with the budget as of the end of the second quarter. However, staff is monitoring the ongoing City-wide utility expenditures as these costs appear to be trending higher than anticipated. Staff will propose future actions to address this issue if the trend continues through the fiscal year.



**GENERAL FUND EXPENDITURES AS OF 12/31/2017**

Department	Amended Budget	Expended as of 12/31/17	% Expended
City Council	\$ 1,612,138	\$ 908,767	56.4%
Boards & Commissions	\$ 15,671	\$ 15,660	99.9%
City Clerk	\$ 1,016,690	\$ 493,887	48.6%
City Attorney	\$ 3,054,919	\$ 1,559,621	51.1%
Administration	\$ 2,061,997	\$ 1,222,430	59.3%
Information Technology	\$ 3,875,379	\$ 2,021,258	52.2%
Human Resources	\$ 2,816,013	\$ 1,475,024	52.4%
Finance	\$ 3,821,990	\$ 2,157,892	56.5%
Non-Departmental	\$ 29,280,122	\$ 3,010,603	10.3%
Animal Care Facility	\$ 3,013,262	\$ 1,623,962	53.9%
Economic Development	\$ 2,206,800	\$ 1,225,533	55.5%
Planning & Building	\$ 2,708,065	\$ 1,575,562	58.2%
Engineering/Capital Project	\$ 8,756,724	\$ 4,441,781	50.7%
Police	\$ 53,559,193	\$ 29,794,987	55.6%
Fire	\$ 28,603,936	\$ 16,611,555	58.1%
Public Works	\$ 18,202,340	\$ 9,850,837	54.1%
Recreation	\$ 4,493,631	\$ 2,261,924	50.3%
Library	\$ 3,817,784	\$ 2,227,011	58.3%
<b>TOTAL EXPENDITURE BUDGET</b>	<b>\$ 172,916,654</b>	<b>\$ 82,478,294</b>	<b>47.7%</b>

The following table reflects the projected expenditures for June 30, 2018. At the end of the second quarter, there are four departments that are projecting expenditure deficits. These include Police, Fire, Public Works and Library. The projected deficits for these departments are within the Personnel Services and Supplies and Services expenditure categories. The projected personnel services deficits in the Police (\$1.6) million and Fire department (\$0.05) million are attributed to higher overtime costs. Police is continuing efforts to isolate the specific sources to mitigate the growth of this deficit. The projected deficit in the Fire Department is smaller and is projected to be contained within the department's budget. A projected \$0.1 million deficit in Personnel Services expenditures is projected for the Library due to increased hourly wage expenses that are required to maintain current operation levels. Overall, the deficits in these departments are projected to be partially offset with savings in other departments that are either under-filling or maintaining vacant positions.

Deficits within the Supplies and Services category are also projected for the Police and Public Works departments. The Police department is projected to exceed its supplies and services budget by \$0.3 million. Similar to what was reported in the first quarter, the cause for the deficit is due to ammunition, uniforms, training, and contractual

costs. To mitigate this deficit, the Department is proactively seeking cost-saving measures and continuously improving processes to enhance operational efficiencies. The Public Works department is projected to exceed its supplies and services budget by \$0.2 million. This is due to unanticipated expenses related to numerous repairs to City facilities and infrastructure. The department will be seeking to make transfers from other expenditure categories with projected savings and to appropriate revenues to mitigate this deficit.

**GENERAL FUND PROJECTIONS BY DEPARTMENT  
 FOR JUNE 30, 2018**

Department	Amended Budget	Proposed Budget	Variance
City Council	\$ 1,612,138	\$ 1,612,138	\$ -
Boards & Commissions	\$ 15,671	\$ 21,732	\$ 6,061
City Clerk	\$ 1,016,690	\$ 985,972	\$ (30,718)
City Attorney	\$ 3,054,919	\$ 2,937,659	\$ (117,260)
Administration	\$ 2,061,997	\$ 2,043,017	\$ (18,980)
Information Technology	\$ 3,875,379	\$ 3,845,080	\$ (30,299)
Human Resources	\$ 2,816,013	\$ 2,640,462	\$ (175,551)
Finance	\$ 3,821,990	\$ 3,662,522	\$ (159,468)
Non-Departmental	\$ 29,280,122	\$ 30,206,061	\$ 925,939
Animal Care Facility	\$ 3,013,262	\$ 2,995,437	\$ (17,825)
Economic Development	\$ 2,206,800	\$ 2,071,720	\$ (135,080)
Planning & Building	\$ 2,708,065	\$ 2,778,190	\$ 70,125
Engineering/Capital Project	\$ 8,756,724	\$ 9,084,350	\$ 327,626
Police	\$ 53,559,193	\$ 53,907,371	\$ 348,178
Fire	\$ 28,603,936	\$ 31,431,602	\$ 2,827,666
Public Works	\$ 18,202,340	\$ 18,278,278	\$ 75,938
Recreation	\$ 4,493,631	\$ 4,258,545	\$ (235,086)
Library	\$ 3,817,784	\$ 3,886,349	\$ 68,565
<b>TOTAL EXPENDITURE BUDGET</b>	<b>\$ 172,916,654</b>	<b>\$ 176,646,485</b>	<b>\$ 3,729,831</b>

Staff will continue to monitor General Fund expenses and look for potential cost saving measures in order to remain within budget during the current fiscal year.

**LONG-TERM FINANCIAL PLAN UPDATE –  
 FISCAL YEARS 2019 TO 2023**

A primary focus of this financial report is to review and reconsider the Long-Term Financial Plan (LTFP), looking beyond the current fiscal year at fiscal issues facing the City on the horizon. The LTFP was presented with the fiscal year 2017-18 budget in March, May, and finally in June 2017. The changes to the LTFP from that which was presented in June 2017 include (1) modified sales tax and in-lieu motor vehicle license fee projections; (2) revised personnel costs to reflect recent labor contracts; (3) updated



CalPERS rates for fiscal year 2019; (4) the addition of twelve new firefighter positions authorized in August 2017; (5) new technology costs in the Police Department, and (6) the change in the estimated opening of the Millennia Fire station from 2019 to 2020. Like the version shown previously in June 2017, this updated version includes cost projections for new peace officers, the new Bayfront Fire Station and new park maintenance expenses for the Millennia Parks.

The purpose of this review is to highlight the structural imbalances that the City will face beginning in the next fiscal year, and to focus problem solving efforts toward a menu of viable options. These projections will continue to evolve as new information becomes available. These projections assume continued economic growth. Even a small or short-lived economic downturn will amplify the projected deficit.

The table on the following page displays the updated financial projections for fiscal years 2019 through 2023. A more detailed table that includes all ten years is provided as an attachment to this report. Beginning next fiscal year, the projection is that revenue will not be sufficient to cover the City's operating expenditures resulting in a \$5.7 million deficit. Left unchecked, the deficit is projected to grow to \$25.8 million in five years (Fiscal Year 2021-22). This deficit is larger than first projected in the First Quarter report, because of the impact of the revised revenue estimates of the Sales Tax Projection and CalPERS unfunded actuarial liability (UAL). The net revenues have improved to \$173.0 million compared to an original estimate of \$171.9 million because of the revised projections for the Measure P Sales Tax, which slightly offsets the expected decline in Sales Tax revenue. On the expenditure side, primarily because of the estimated opening of the Millennia Fire Station in 2020 rather than 2019, the projected expenditures have decreased from \$177.7 million to \$177.5 million. New expenditures that were not in the original plan add just over \$1 million in cost in fiscal year 2018-19. These include proposed twelve new firefighter positions (Safer Grant supported), and new police technology costs.

The most significant drivers for the long-term growth in the City's expenditures are the increase in public safety costs and the increasing costs associated with public employee salaries and benefits. Even with the additional resources provided by Measure P, which are significant, the current plan is for the General Fund to add \$1.5 million in new service levels in 2019, growing to \$5.0 million, \$6.7 million, \$10.7 million, and \$12.2 million in the subsequent four years. In addition to these new expenditures, the City's remaining operating expenditures will also experience growth.

Description	Forecast FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023
<b>Revenues:</b>					
MAJOR DISCRETIONARY REVENUES	\$ 128.88	\$ 132.31	\$ 134.64	\$ 136.99	\$ 139.50
OTHER REVENUES	\$ 40.67	\$ 40.94	\$ 41.20	\$ 41.03	\$ 41.30
NEW DEVELOPMENT REVENUES	\$ 3.25	\$ 2.96	\$ 4.07	\$ 5.05	\$ 6.03
<b>TOTAL REVENUES</b>	<b>\$ 172.80</b>	<b>\$ 176.20</b>	<b>\$ 179.92</b>	<b>\$ 183.07</b>	<b>\$ 186.84</b>
<b>Expenditures:</b>					
PERSONNEL SERVICES EXPENDITURES	\$ 130.32	\$ 135.82	\$ 141.52	\$ 147.29	\$ 152.94
OTHER EXPENDITURES	\$ 46.98	\$ 48.22	\$ 49.88	\$ 51.50	\$ 52.43
NEW DEVELOPMENT EXPENDITURES	\$ 1.55	\$ 5.04	\$ 6.70	\$ 10.72	\$ 12.18
<b>TOTAL EXPENDITURES</b>	<b>\$ 178.84</b>	<b>\$ 189.08</b>	<b>\$ 198.10</b>	<b>\$ 209.52</b>	<b>\$ 217.56</b>
<b>TOTAL GENERAL FUND SURPLUS/(DEFICIT)</b>	<b>\$ (6.04)</b>	<b>\$ (12.88)</b>	<b>\$ (18.18)</b>	<b>\$ (26.45)</b>	<b>\$ (30.72)</b>
<b>SURPLUS/(DEFICIT) AS % OF BUDGET</b>	<b>-3%</b>	<b>-7%</b>	<b>-9%</b>	<b>-13%</b>	<b>-14%</b>

### Fiscal Year 2019 Budget Balancing

The City's options for addressing the anticipated shortfall will require new revenues, cost cutting, and cost deferments. Preliminarily, staff has identified possible savings that will accrue to the City once the Measure P projects are implemented. Future savings in utility costs have been estimated to have a mitigating impact of \$800,000 in FY 2020 and as much as \$1.7 million by 2023. In addition, the savings to the City if it were to make permanent the elimination of eight currently vacant positions has been estimated to relieve the budget by \$0.5 million in 2019 and in future years as well. These eight positions are non-sworn and revenue neutral. In addition, all City Departments are presently evaluating opportunities for reorganization or consolidation in order to affect further savings and shrink the deficit gap. These efforts alone will not be sufficient, however to eliminate the projected deficit which, in the following year, is projected to increase to \$12.2 million, shown below.

## **SUMMARY AND NEXT STEPS**

At the conclusion of the second fiscal year quarter of 2017-18, the current year budget is on track for revenues and expenditures, with minor modifications. Staff is watching expenditures and revenue projections, particularly Sales Tax projections, to assess whether further modifications will be necessary later in the year.

The longer-term projections for the City's General Fund continue to pose serious challenges, because revenues will not be sufficient to cover current costs or new costs that are on the horizon. Because the City has limited abilities to impact near-term revenue, its staff and policy makers will need to focus their efforts on the cost side by finding savings, modifying service levels, cost cuts or cost delays for the upcoming year, even as efforts continue to address economic development opportunities throughout the City.

The third quarter report will contain a more thorough analysis of and updates on the status of new development and major revenues derived from new development. Staff anticipates presenting the baseline budget, a more thorough update to the LTFP, and potential solutions to resolve the operating deficit to the City Council in March during the upcoming budget workshops.



**Quarterly Financial Report**  
 Second Quarter FY 2018 Ending December 31, 2017  
 Prepared – February 2018

Description	Proposed FY 2018	Forecast FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027
<b>Revenues:</b>										
Property Taxes	\$ 33.69	\$ 34.36	\$ 35.30	\$ 36.26	\$ 37.26	\$ 38.28	\$ 39.34	\$ 40.42	\$ 41.54	\$ 42.69
Sales Tax	\$ 50.70	\$ 51.20	\$ 51.55	\$ 51.89	\$ 52.19	\$ 52.60	\$ 53.13	\$ 53.66	\$ 54.20	\$ 54.74
Franchise Fees	\$ 11.97	\$ 11.57	\$ 11.76	\$ 11.96	\$ 12.16	\$ 12.36	\$ 12.56	\$ 12.77	\$ 12.98	\$ 13.20
Utility Users Taxes	\$ 5.86	\$ 5.92	\$ 5.98	\$ 6.04	\$ 6.10	\$ 6.16	\$ 6.22	\$ 6.28	\$ 6.35	\$ 6.41
Transient Occupancy Taxes	\$ 4.04	\$ 4.36	\$ 5.61	\$ 5.73	\$ 5.84	\$ 5.96	\$ 6.08	\$ 6.20	\$ 6.32	\$ 6.45
Motor Vehicle License Fees	\$ 21.16	\$ 21.47	\$ 22.11	\$ 22.77	\$ 23.45	\$ 24.15	\$ 24.87	\$ 25.61	\$ 26.38	\$ 27.17
<b>SUBTOTAL MAJOR DISCRETIONARY REVENUES</b>	<b>\$ 127.42</b>	<b>\$ 128.88</b>	<b>\$ 132.31</b>	<b>\$ 134.64</b>	<b>\$ 136.99</b>	<b>\$ 139.50</b>	<b>\$ 142.19</b>	<b>\$ 144.95</b>	<b>\$ 147.77</b>	<b>\$ 150.65</b>
Development Revenue	\$ 1.21	\$ 1.21	\$ 1.22	\$ 1.22	\$ 1.23	\$ 1.24	\$ 1.24	\$ 1.25	\$ 1.25	\$ 1.26
Licenses and Permits	\$ 1.38	\$ 1.39	\$ 1.42	\$ 1.45	\$ 1.48	\$ 1.51	\$ 1.54	\$ 1.57	\$ 1.60	\$ 1.63
Fines, Forfeitures & Penalties	\$ 1.08	\$ 1.10	\$ 1.12	\$ 1.14	\$ 1.16	\$ 1.19	\$ 1.21	\$ 1.24	\$ 1.26	\$ 1.29
Use of Money and Property	\$ 2.46	\$ 2.45	\$ 2.47		\$ 2.52	\$ 2.55	\$ 2.57	\$ 2.60	\$ 2.62	\$ 2.65
Other Local Taxes	\$ 2.60	\$ 2.62	\$ 2.65	\$ 2.68	\$ 2.70	\$ 2.73	\$ 2.76	\$ 2.79	\$ 2.81	\$ 2.84
Police Grants	\$ 0.77	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76	\$ 0.76
Other Agency Revenue	\$ 2.05	\$ 2.05	\$ 2.07	\$ 2.09	\$ 2.11	\$ 2.13	\$ 2.15	\$ 2.17	\$ 2.19	\$ 2.22
Charges for Services	\$ 7.21	\$ 7.25	\$ 7.28	\$ 7.32	\$ 7.36	\$ 7.39	\$ 7.43	\$ 7.47	\$ 7.50	\$ 7.54
Interfund Reimbursements	\$ 9.82	\$ 9.92	\$ 10.01	\$ 10.11	\$ 9.76	\$ 9.86	\$ 9.96	\$ 10.06	\$ 10.16	\$ 10.26
Other Revenues - Miscellaneous	\$ 22.46	\$ 1.04	\$ 1.04	\$ 1.05	\$ 1.06	\$ 1.06	\$ 1.07	\$ 1.07	\$ 1.08	\$ 1.08
Transfers From Other Funds	\$ 10.72	\$ 10.90	\$ 10.90	\$ 10.90	\$ 10.90	\$ 10.90	\$ 10.90	\$ 10.90	\$ 10.90	\$ 10.90
<b>SUBTOTAL OTHER REVENUES</b>	<b>\$ 61.76</b>	<b>\$ 40.67</b>	<b>\$ 40.94</b>	<b>\$ 38.71</b>	<b>\$ 41.03</b>	<b>\$ 41.30</b>	<b>\$ 41.58</b>	<b>\$ 41.86</b>	<b>\$ 42.13</b>	<b>\$ 42.42</b>
<b>NEW DEVELOPMENT REVENUES</b>										
<i>Property Taxes</i>	\$ -	\$ 0.73	\$ 1.01	\$ 1.41	\$ 1.76	\$ 2.10	\$ 2.46	\$ 2.79	\$ 3.19	\$ 3.37
<i>Sales Tax</i>	\$ -	\$ 0.15	\$ 0.32	\$ 0.45	\$ 0.59	\$ 0.74	\$ 0.85	\$ 0.96	\$ 1.06	\$ 1.16
<i>Franchise Fees</i>	\$ -	\$ 0.20	\$ 0.28	\$ 0.36	\$ 0.45	\$ 0.54	\$ 0.63	\$ 0.72	\$ 0.80	\$ 0.88
<i>Utility Users Taxes</i>	\$ -	\$ 0.08	\$ 0.11	\$ 0.14	\$ 0.18	\$ 0.21	\$ 0.25	\$ 0.28	\$ 0.32	\$ 0.37
<i>Transient Occupancy Taxes</i>	\$ -	\$ 1.19	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<i>Motor Vehicle License Fees</i>	\$ -	\$ 0.49	\$ 0.68	\$ 0.95	\$ 1.19	\$ 1.42	\$ 1.66	\$ 1.89	\$ 2.15	\$ 2.27
<i>Other Revenues - Miscellaneous</i>	\$ -	\$ 0.27	\$ 0.38	\$ 0.50	\$ 0.62	\$ 0.74	\$ 0.86	\$ 0.98	\$ 1.06	\$ 1.69
<i>Other Local Taxes</i>	\$ -	\$ 0.15	\$ 0.19	\$ 0.26	\$ 0.26	\$ 0.28	\$ 0.31	\$ 0.33	\$ 0.35	\$ 0.30
<b>SUBTOTAL NEW DEVELOPMENT REVENUES</b>	<b>\$ -</b>	<b>\$ 3.25</b>	<b>\$ 2.96</b>	<b>\$ 4.07</b>	<b>\$ 5.05</b>	<b>\$ 6.03</b>	<b>\$ 7.01</b>	<b>\$ 7.94</b>	<b>\$ 8.92</b>	<b>\$ 10.43</b>
<b>TOTAL REVENUES</b>	<b>\$ 189.18</b>	<b>\$ 172.80</b>	<b>\$ 176.20</b>	<b>\$ 177.42</b>	<b>\$ 183.07</b>	<b>\$ 186.84</b>	<b>\$ 190.78</b>	<b>\$ 194.74</b>	<b>\$ 198.82</b>	<b>\$ 203.50</b>
<b>Expenditures:</b>										
Personnel Services	\$ 91.28	\$ 91.11	\$ 92.42	\$ 94.17	\$ 95.97	\$ 97.80	\$ 99.66	\$ 101.57	\$ 103.51	\$ 105.50
Flex/Insurance	\$ 12.21	\$ 12.82	\$ 13.76	\$ 14.78	\$ 15.88	\$ 17.07	\$ 18.36	\$ 19.75	\$ 21.27	\$ 22.91
PERS	\$ 24.43	\$ 27.24	\$ 30.53	\$ 33.49	\$ 36.41	\$ 39.07	\$ 41.28	\$ 43.89	\$ 45.17	\$ 47.17
Salary Savings (On Going)	\$ (0.84)	\$ (0.86)	\$ (0.89)	\$ (0.92)	\$ (0.95)	\$ (0.98)	\$ (1.01)	\$ (1.05)	\$ (1.07)	\$ (1.10)
Salary Savings (One-Time)	\$ (1.34)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>SUBTOTAL PERSONNEL SERVICES EXPENDITURES</b>	<b>\$ 125.74</b>	<b>\$ 130.32</b>	<b>\$ 135.82</b>	<b>\$ 141.52</b>	<b>\$ 147.29</b>	<b>\$ 152.94</b>	<b>\$ 158.28</b>	<b>\$ 164.17</b>	<b>\$ 168.88</b>	<b>\$ 174.48</b>
Supplies and Services	\$ 16.80	\$ 15.49	\$ 16.73	\$ 18.07	\$ 19.34	\$ 19.72	\$ 20.12	\$ 20.52	\$ 20.93	\$ 21.35
Utilities	\$ 5.57	\$ 5.32	\$ 5.58	\$ 5.86	\$ 6.15	\$ 6.46	\$ 6.79	\$ 7.12	\$ 7.48	\$ 7.85
Other Expenses	\$ 1.18	\$ 0.66	\$ 0.67	\$ 0.68	\$ 0.70	\$ 0.71	\$ 0.72	\$ 0.74	\$ 0.75	\$ 0.77
Equipment (Capital not CIP)	\$ 0.35	\$ 0.15	\$ 0.15	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16
Transfers/Debt Service	\$ 43.31	\$ 25.34	\$ 25.07	\$ 25.09	\$ 25.14	\$ 25.36	\$ 25.53	\$ 25.69	\$ 25.88	\$ 21.38
Capital Improvement Projects	\$ 1.48	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-CIP Project Expenditures	\$ 0.90	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02
Prior Year Appropriations - Carry Forward	\$ (5.75)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>SUBTOTAL OTHER EXPENDITURES</b>	<b>\$ 63.85</b>	<b>\$ 46.98</b>	<b>\$ 48.22</b>	<b>\$ 49.88</b>	<b>\$ 51.50</b>	<b>\$ 52.43</b>	<b>\$ 53.33</b>	<b>\$ 54.26</b>	<b>\$ 55.22</b>	<b>\$ 51.53</b>
<b>NEW PROGRAMS &amp; NEW DEVELOPMENT EXPENDITURES</b>										
<i>12 new firefighters with 3 yr SAFER grant offset</i>	\$ -	\$ 0.91	\$ 1.03	\$ 1.63	\$ 2.17	\$ 2.28	\$ 2.39	\$ 2.50	\$ 2.61	\$ 2.73
<i>4.0 Truck Staffing for Millenia and Bayfront</i>	\$ -	\$ -	\$ 1.97	\$ 2.08	\$ 4.38	\$ 4.60	\$ 4.82	\$ 5.05	\$ 5.27	\$ 5.51
<i>Peace Officer Funding</i>	\$ -	\$ 0.38	\$ 1.61	\$ 2.55	\$ 3.59	\$ 4.71	\$ 5.91	\$ 7.22	\$ 8.60	\$ 10.10
<i>New Police Technology</i>	\$ -	\$ 0.19	\$ 0.19	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.20	\$ 0.20	\$ 0.22	\$ 0.21
<i>Millenia Parks Maintenance</i>	\$ -	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08
<i>Fire Station Supplies and Services</i>	\$ -	\$ -	\$ 0.16	\$ 0.16	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
<b>SUBTOTAL NEW DEVELOPMENT EXPENDITURES</b>	<b>\$ -</b>	<b>\$ 1.55</b>	<b>\$ 5.04</b>	<b>\$ 6.70</b>	<b>\$ 10.72</b>	<b>\$ 12.18</b>	<b>\$ 13.70</b>	<b>\$ 15.37</b>	<b>\$ 17.09</b>	<b>\$ 18.94</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 189.59</b>	<b>\$ 178.84</b>	<b>\$ 189.08</b>	<b>\$ 198.10</b>	<b>\$ 209.52</b>	<b>\$ 217.56</b>	<b>\$ 225.32</b>	<b>\$ 233.79</b>	<b>\$ 241.19</b>	<b>\$ 244.95</b>
<b>TOTAL GENERAL FUND SURPLUS/(DEFICIT)</b>	<b>\$ (0.41)</b>	<b>\$ (6.04)</b>	<b>\$ (12.88)</b>	<b>\$ (20.67)</b>	<b>\$ (26.45)</b>	<b>\$ (30.72)</b>	<b>\$ (34.54)</b>	<b>\$ (39.05)</b>	<b>\$ (42.36)</b>	<b>\$ (41.45)</b>
<b>SURPLUS/(DEFICIT) AS % OF BUDGET</b>	<b>0%</b>	<b>-3%</b>	<b>-7%</b>	<b>-10%</b>	<b>-13%</b>	<b>-14%</b>	<b>-15%</b>	<b>-17%</b>	<b>-18%</b>	<b>-17%</b>