

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2016 through December 31, 2015 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 December report, Senior Economist David Shulman forecasts ongoing job growth and expected wage increases will drive consumption in 2016 leading to the first year of greater than 3.0% growth in real GDP since 2005. The higher wages, along with a modest rebound in oil prices and higher housing costs, will push the inflation rate above 2.0%. Schulman also states that the Federal Reserve "is about to get the inflation it has been waiting for," leading the Fed to begin a gradual tightening cycle beginning this month. Economic strength will be found in housing and commercial construction along with a booming automobile market. The collapse in oil-related capital spending will come to an end next year and defense spending will be increasing after five years of decline.

The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg examines the economic sectors that differentiate California from the other states. These include: trade through California's ports, international arrivals at LAX and SFO, state government finances, residential construction and employment. Nickelsburg cites data that indicate ongoing growth for California based on: port activity in September that was at a historically high level; international passenger arrivals at LAX and SFO reaching record numbers over the past year; a (shallow) upward trend in sales taxes (which are still below the pre-recession peak when adjusting for inflation); continued growth in residential construction; and impressive gains in California employment. The forecast calls for a 2015 total employment growth of 2.6% and for 2016 and 2017 the forecast is for 2.1% and 1.4%. Payrolls will grow more at about the same rate. Real personal income growth is estimated to be 4.3% in 2015 and forecast to be 3.4% and 3.2% in 2016 and 2017, respectively.

¹Source: UCLA Anderson Forecast, December 2015

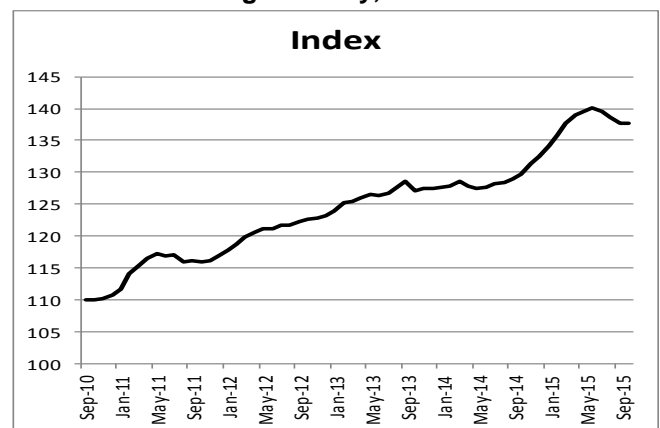
²Source: UCLA Anderson Forecast, December 2015

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County was unchanged in October. Only two of the components were positive, with the outlook for the national economy up sharply and consumer confidence up modestly. This was enough to offset the four negative components. While local stock prices took a big dip and building permits were down moderately, there were only minor drops in initial claims for unemployment insurance and help wanted advertising.

The unchanged reading in October stopped a stretch where the USD Index had fallen for three consecutive months. As was mentioned previous monthly reporting, three moves in a single direction in a leading index is what economists usually look for as a signal of a turning point in an economy. That the drop has been stopped at three months is encouraging and could suggest that a slowdown in the local economy in the coming year might be limited.

One positive development recently has been the fall in gas prices. The price of gasoline is down more than 30 cents a gallon compared to this time last year and down about \$1.50 a gallon compared to the peak in July. Every cent a gallon that the price falls adds a million dollars a month to the local economy, as consumers can spend that money on other things besides filling their tanks. The drops mean an extra \$30+ million per month in consumers' pockets compared to last year and an extra \$150 million per month compared to July.

**San Diego Index of Leading Economic Indicators
San Diego County, 2010 - 2015**



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/i/index.html>

GENERAL FUND SUMMARY

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	\$ 141.87	\$ 140.87
Expenditures & Transfers Out ²	\$ (141.81)	\$ (141.03)
Pending Appropriations ³	\$ -	\$ (0.60)
Projected Surplus/Deficit	\$ 0.06	\$ (0.76)
Projected Fund Balance for June 30, 2016	\$ 16.36	\$ 15.54
Percentage of Operating Budget	11.5%	11.0%

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 appropriations reflect a transfer from the General Fund to the Workers Compensation Fund of \$0.5 million in order to pay for two settlements that were not included in the fiscal year 2015-16 budget. An additional transfer of \$0.1 million from the General Fund is also proposed to offset increased planning costs due to processing of building improvement plans.

The City's financial outlook appears moderately negative through the end of the second quarter. Revenues are projected to decrease modestly from the amended budget level based on updated assumptions for fiscal year 2015 actuals and trends in the second quarter. Major factors affecting expenditures include pending appropriations to the Workers Compensation Fund and a transfer to the Development Services Fund for unanticipated expenses. The General Fund is

projected to end the fiscal year with an estimated decrease in fund balance of \$0.76 million.

The City's discretionary revenues are in large part projected to meet or 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 \$1.0 million below the current amended budget. This is due to projected shortfalls in the following revenue categories: Charges for Services (\$0.9 million), Revenue from Other Agencies (\$0.3 million), Transfers In (\$0.2 million), Licenses and Permits (\$0.1 million), and Fines, Forfeitures, and Penalties (\$0.1 million). These shortfalls were partially offset with improvements in the Other Local Taxes category of \$0.6 million. The projected fluctuations for these revenues are based on a review of previous fiscal year actuals, an analysis of actuals through December 31, 2015, and revised assumptions since the first quarter projections.

Expenditures are projected slightly below budget as \$0.8 in savings is projected for the General Fund. Departmental expenditures are tracking within budgeted levels as all of the City's operating departments are projecting savings. Although departmental savings are projected, the overall budgeted salary savings levels are not projected to be achieved based on the current trend as reported in the first quarter. This is primarily due to lower than anticipated employee attrition rates. Salary savings are currently budgeted at \$1.6 million in the General Fund. Staff will continue to monitor salary savings levels and look for other potential cost saving measures in order to remain within budget.

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 \$1.0 million below 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 \$0.4 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 \$0.1 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.

General Fund Revenues

Category	Amended Budget as of 12/31/15	Q2 Projected 6/30/16	Variance
Property Taxes	\$ 30,052,206	\$ 30,052,206	\$ -
Sales Tax	\$ 25,493,204	\$ 25,493,204	\$ -
Sales Tax In Lieu	\$ 5,981,593	\$ 5,981,593	\$ -
Motor Vehicle License	\$ 18,887,001	\$ 18,934,512	\$ 47,511
Other Revenue	\$ 11,813,766	\$ 11,900,485	\$ 86,719
Transfers In	\$ 10,022,271	\$ 9,811,454	\$ (210,817)
Franchise	\$ 11,426,283	\$ 11,426,283	\$ -
Charges for Services	\$ 7,722,775	\$ 6,774,043	\$ (948,732)
Revenue from Other Agencies	\$ 2,700,917	\$ 2,380,309	\$ (320,608)
Utility Users Tax	\$ 6,500,000	\$ 6,129,589	\$ (370,411)
Transient Occupancy Taxes	\$ 2,890,853	\$ 3,819,554	\$ 928,701
Use of Money & Property	\$ 2,726,806	\$ 2,671,128	\$ (55,678)
Other Local Taxes	\$ 2,245,437	\$ 2,225,714	\$ (19,723)
Licenses and Permits	\$ 1,309,447	\$ 1,172,060	\$ (137,387)
Fines, Forfeitures, Penalties	\$ 1,133,800	\$ 1,074,694	\$ (59,106)
Real Property Transfer Tax	\$ 962,865	\$ 1,023,661	\$ 60,796
Total General Fund	\$ 141,869,224	\$ 140,870,489	\$ (998,735)

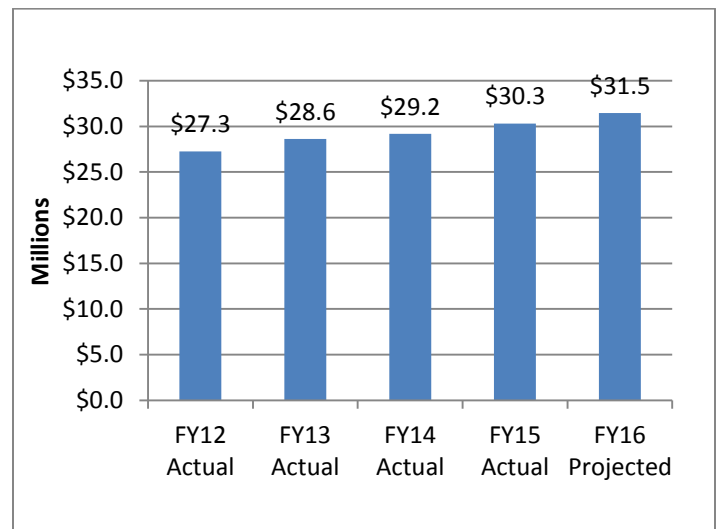
Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 22.3% of General Fund revenues in the fiscal year 2015/16 amended budget. HdL Companies, the City's Sales Tax consultant, has provided data for the third quarter of calendar year 2015. They report

that the change in sales tax receipts between third quarter calendar year 2014 and third quarter calendar year 2015 increased by 5.4% 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 3.2% in Chula Vista when compared to the same quarter for 2014. Other sectors that also increased included: Business and Industry 10%, Restaurants and Hotels 9% and Autos and Transportation 8%.

There is no change in the projection for Sales Tax revenues as they are assumed to be at the budgeted level as of the second quarter.

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

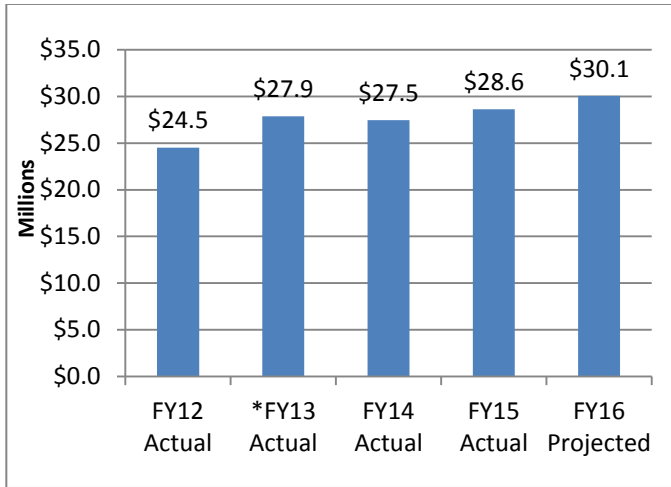
Sales Tax and Sales Tax in Lieu



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 21.3% of General Fund revenues in the fiscal year 2015/16 budget.

The Property tax revenue projection was increased by \$0.2 million in the first quarter to reflect the most recent information received from the County regarding projected growth for assessed property values (AV) for the City and a review of previous fiscal year actual property tax revenues. There is no change in the projection for property taxes for the second quarter.

Property Tax

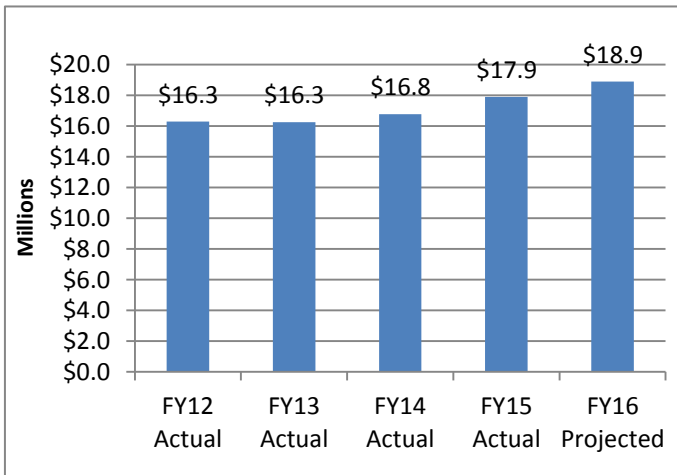


Motor Vehicle License Fee (VLF) – Since the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Beginning in 2005/06, the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross assessed valuation. 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 is unchanged for the second quarter.

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

Motor Vehicle License Fee

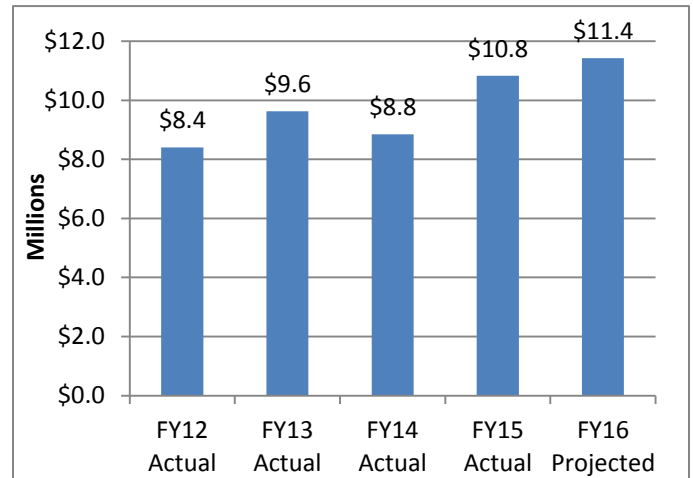


Franchise Fees - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E collects the franchise fee from Chula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

Franchise Fee revenues are projected to be realized at the budgeted level as of the end of the second quarter.

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.

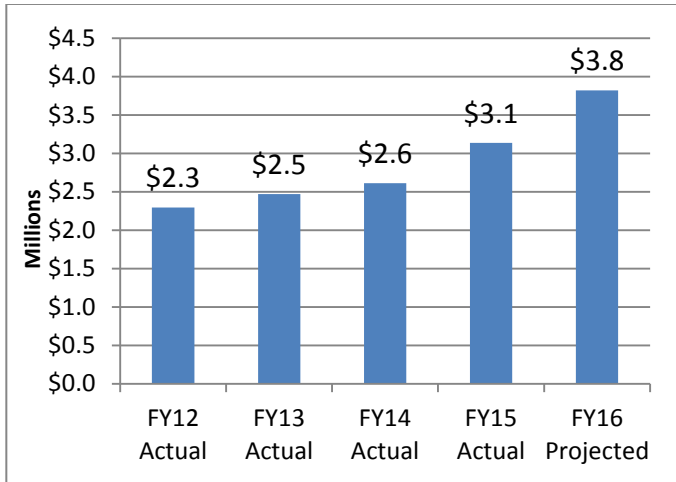
Franchise Fees



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 has been increased by \$0.9 million when compared to the adopted budget. The projected increase consists of \$0.6 million attributed to the previous fiscal year’s growth trend, and \$0.3 million is due to previous fiscal year collections that were received the current fiscal year.

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

Transient Occupancy Tax (TOT)

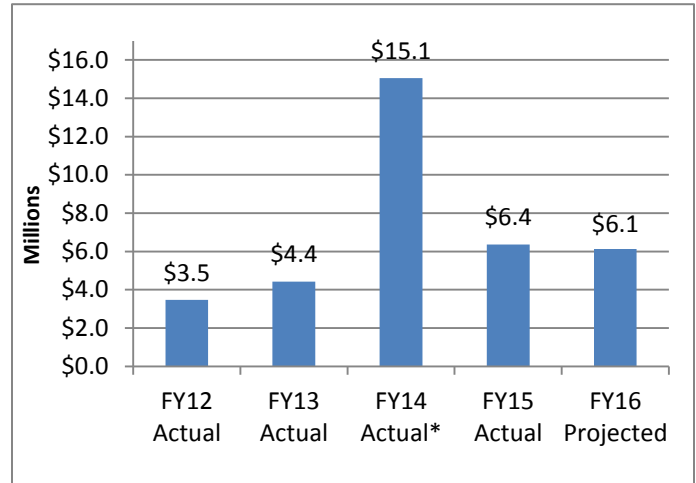


Utility Users Tax (UUT) - The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecom at the rate of 4.75% of gross receipts. The UUT on natural gas services is \$0.00919 per therm and \$0.00250 per kilowatt on electricity services, which equates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

The projection for UUT revenues has been reduced by \$0.4 million from the adopted budget. This decrease reflects the ongoing trend based on actual fiscal year 2014-15 UUT revenues. The downward trend is projected to continue to through fiscal year 2015-16 as 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.

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 \$2.0 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 \$147.1 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2015. In total, Departments have expended 45% of the General Fund budget after 50% of the fiscal year has elapsed.

General Fund Expenditures as of 12/31/2015

Department	Amended Budget as of 9/30/15	Expended as of 12/30/15	% Expended
City Council	\$ 1,496,640	\$ 703,348	47%
Boards & Commissions	\$ 77,520	\$ 47,785	62%
City Clerk	\$ 942,667	\$ 386,107	41%
City Attorney	\$ 3,038,310	\$ 1,331,132	44%
Administration	\$ 3,375,975	\$ 1,517,080	45%
Information Tech Svcs	\$ 3,604,224	\$ 1,621,503	45%
Human Resources	\$ 2,600,103	\$ 1,239,279	48%
Finance	\$ 3,720,758	\$ 1,700,703	46%
Non-Departmental	\$ 10,915,453	\$ 2,316,808	21%
Animal Care Facility	\$ 2,988,449	\$ 1,319,928	44%
Dev Services (GF)	\$ 2,482,554	\$ 1,172,675	47%
Police	\$ 49,528,234	\$ 23,592,761	48%
Fire	\$ 26,838,645	\$ 13,224,281	49%
Public Works	\$ 27,353,014	\$ 12,354,747	45%
Recreation	\$ 4,332,469	\$ 1,877,176	43%
Library	\$ 3,844,407	\$ 1,820,903	47%
Total Expenditures	\$ 147,139,422	\$ 66,226,216	45%

The following table reflects the projected expenditures for June 30, 2016. As noted on the table, all of the operating departments are projecting to be within budget or realize savings in the current fiscal year. A \$1.3 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.

Overall, General Fund expenditures are projected to be under budget by \$0.8 million in the current fiscal year.

For the second quarter, staff recommended budget adjustments include funding a \$0.5 million transfer from the General Fund to the Workers Compensation Fund. This transfer is needed as a result of the City recently reaching a settlement in a Workers Compensation related case. Staff is also recommending a \$0.1 million transfer from the General Fund to the Development Services Fund due to an increase in activity for processing building and improvement plans.

The net fiscal impact to the General Fund of these two adjustments is \$0.6 million. Both of 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 12/31/15	Q2 Projected 6/30/16	Variance
City Council	\$ 1,496,640	\$ 1,496,640	\$ -
Boards & Commissions	\$ 77,520	\$ 77,520	\$ -
City Clerk	\$ 942,667	\$ 897,096	\$ (45,571)
City Attorney	\$ 3,038,310	\$ 2,918,571	\$ (119,739)
Administration	\$ 3,375,975	\$ 3,257,727	\$ (118,248)
Information Tech Svcs	\$ 3,604,224	\$ 3,511,331	\$ (92,893)
Human Resources	\$ 2,600,103	\$ 2,556,989	\$ (43,114)
Finance	\$ 3,720,758	\$ 3,471,614	\$ (249,144)
Non-Departmental	\$ 10,915,453	\$ 12,213,388	\$ 1,297,935
Animal Care Facility	\$ 2,988,449	\$ 2,965,435	\$ (23,014)
Dev Services (GF)	\$ 2,482,554	\$ 2,450,529	\$ (32,025)
Police	\$ 49,528,234	\$ 48,690,597	\$ (837,637)
Fire	\$ 26,838,645	\$ 26,873,233	\$ 34,588
Public Works	\$ 27,353,014	\$ 26,980,448	\$ (372,566)
Recreation	\$ 4,332,469	\$ 4,273,976	\$ (58,493)
Library	\$ 3,844,407	\$ 3,722,712	\$ (121,695)
Total Expenditures	\$ 147,139,422	\$146,357,806	\$ (781,616)

Budget Transfers

The following table reflects the administrative budget transfers that have been approved through the second 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

Mid-Year Budget Amendments

Mid-year expenditure appropriations approved through December 30, 2015 totaled \$2,007,233. The City Council approved changes to budgeted revenues of \$2,063,055. Combined, these changes result in a positive net impact of \$55,822.

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 Adjusmtents (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	\$ -
Total Appropriations to date:		\$2,063,055	\$ 2,056,751	\$ (6,304)

- 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).