

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2014 through December 31, 2013 and projecting out to June 30, 2014. 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.

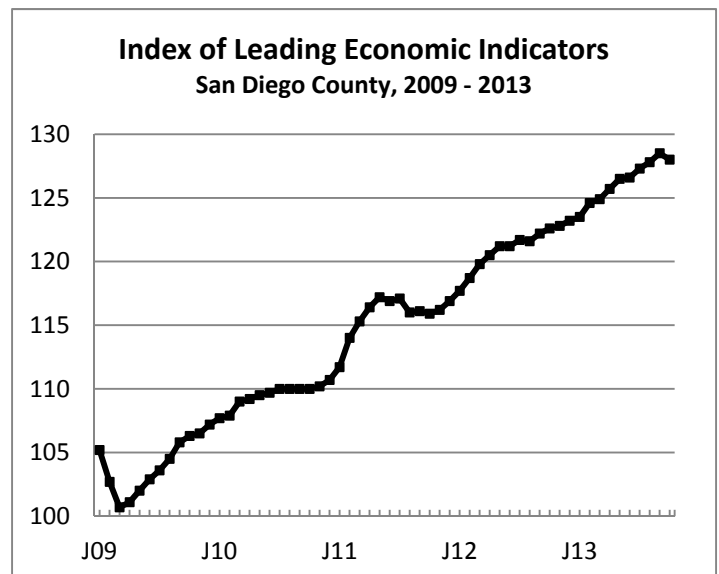
ECONOMIC UPDATE

The National Forecast¹ - In the December 2013 report, the UCLA Anderson Forecast predicts real growth to be a tepid 1.8 percent in the fourth quarter of 2013, but the Forecast calls for a "sustained 3 percent growth path by the second quarter of 2014. Senior Economist David Shulman writes that growth in the U.S. economy will be sparked by strength in the housing and automobile sectors, combined with increased business spending and an end to the dramatic drop in federal purchases. Shulman further forecasts that the unemployment rate will be down to about 6 percent by year-end 2015. Interest rates are further predicted to rise with inflation due to rising housing costs and the implementation of the Affordable Care Act.

The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg's report takes another look at the split between the state's coastal haves and its inland have-nots. Taken as a whole, California has just about recovered all of the jobs lost during the most recent recession. In total, (payroll, farm and self-employed) jobs in California declined by 1.065 million, but rebounded by 1.044 million through October 2013. The vast majority of employment gains are found in communities along the coast, while job growth remains stagnated in inland California. The forecast for 2013 calls for total employment growth (payroll, farm and self-employed) of 2.4 percent, and for 2014 and 2015 it is 1.5 percent and 2.0 percent respectively. Unemployment will fall through 2013 and will average approximately 8.9 percent for this year. In 2014, the unemployment rate is forecasted to drop to 8.2 percent on average, over one percentage point higher than the U.S. forecast. Real personal income growth is forecast to be 0.6 percent in 2013 followed by 3.2 percent and 3.1 percent in 2014 and 2015.

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County saw a drop of 0.4 percent after increasing every month in calendar year 2013. This decline was attributed to an increase in initial claims for unemployment insurance as the decline in this component of the index pushed the index sharply downward. The Building Permits and Help Wanted advertising components of the index also experienced declines of .05% and .99% respectively adding to the overall negative impact. The magnitude of the decreases in these indicators overwhelmed the small gains experienced by other components of the index that included: local stock prices, consumer confidence, and the outlook for the national economy. The net impact of these components pushed the USD Index to its first loss since August 2012.

In an effort to quantify these changes, the Burnham report explains that surge in unemployment claims for October was likely related to the two-week Federal government shutdown in the early part of that month. As a result, October's drop may be an aberration rather than a signal of a turning point for the local economy. The outlook for 2014 remains positive, at least through the first half of the year.



¹Source: UCLA Anderson Forecast, December 2013

²Source: UCLA Anderson Forecast, December 2013

³Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 2013; retrieved from URL: <http://home.sandiego.edu/~agin/usdleli/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, 2013 as well as the projected General Fund reserves for June 30, 2014.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2013 (Audited)	\$10.9	\$10.9
Revenues & Transfers In	\$129.1	\$128.3
Expenditures & Transfers Out	(\$129.3)	(\$128.8)
Projected Surplus/Deficit	(\$0.2)	(\$0.5)
Projected Fund Balance for June 30, 2014	\$10.7	\$10.4

Notes:

1. The Amended Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances that were carried forward into the fiscal year 2013/14 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2013 and are therefore not included in the above table.

In the second quarter, City's financial outlook deteriorated slightly based on updated projections that resulted in an estimated net decrease of \$0.8 million in total revenue. Based on activity through the end of the second quarter, the General Fund is projected to end the fiscal year with a negative balance of \$0.5 million of which \$0.2 million is a result of Council approved mid-year appropriations. The estimated revenue short-fall consists of a net decrease of \$1.1 in program revenues that is largely due to a decrease in revenue from other agencies (\$0.7) million. The projected short-fall in revenue from other agencies was discussed in the First Quarter Financial Report and is attributed to Police grant revenues that are not going to be realized in the

current fiscal year. Other projected program revenue short-falls include a combined \$0.3 million for the Transfers In and Use of Money and Property revenue categories. Projected transfers in revenues are estimated to be below budget, due to lower than anticipated reimbursement from various city funds. Projected use of money and property revenues are estimated to be below budget due to lower investment earnings and income derived from the rental of city facilities.

Discretionary revenues have remained stable and are projected to increase slightly by \$0.1 million. The projected decrease in program revenues is offset by net \$0.1 projected increase in discretionary revenues. As discussed in the First Quarter Financial Report, discretionary General Fund revenue projections for fiscal year 2013/14 were updated to reflect a modestly improving economic trend. As a result, budgeted discretionary General Fund Revenues such as property taxes, franchise fees and motor vehicle license fee revenues were increased reflecting the revised projections for these revenues. In the second quarter, the projections for property tax, sales tax in lieu, transient occupancy tax, other local tax and motor vehicle license fee revenues have been increased by an additional \$0.8 million reflecting the current economic trends for these revenues. These projected increases however, are offset by a \$0.7 million estimated decrease in sales tax revenues. The projected decrease in sales tax revenue is a new development as of the second quarter. The revised sales tax projection reflects a 1.2% estimated growth rate versus the 4.0% more optimistic growth rate that was assumed in the budget.

Expenditures are projected to be under budget by \$0.5 million thus offsetting the impact of the estimated revenue short-falls. The majority of the projected expenditure savings (\$0.9 million) is in the Personnel Services category resulting from vacant positions. A \$0.3 million savings is projected in the Capital expense category as a result of project savings. The savings in these categories are offset by projected overages in the Supplies and Services and Utility expense categories. Supplies and Services are projected to be over budget by \$0.4 million primarily due to Police and Fire expenditures. The Utilities budget is projected to be over budget by an estimated \$0.2 million as a result of increased water expenses for City park facilities. These overages are being addressed in the staff report to Council that accompanies this report.

Revenues

The following table compares the projected revenues as reflected in the fiscal year 2013/14 amended budget and the updated revenue projections for discretionary and departmental program revenues. The projections summarize the estimated \$0.8 million shortfall in City revenues projected as of the end of the second quarter. Overall, discretionary revenues with the exception of sales taxes continue a modest upward trend as they are projected to exceed the amended budget levels. City program revenues are projected to decrease primarily due to lower revenue from other agencies from Police grants. The major variances in revenues that affect the second quarter projections include the following:

- A net increase of \$0.5 million in Property Tax revenue reflecting a better than expected 3.4% increases in city-wide assessed property valuations.
- A \$0.2 million increase in projected other revenues due to estimated higher reimbursements from various City funds and outside agencies and donation revenues.
- A combined \$0.3 million estimated decrease in transfers in and use of money and property revenue categories due to lower projected reimbursements from City Funds and earnings from City assets.
- \$0.7 million decrease in sale tax revenue based on a revised estimated growth rate of 2.3% versus 4.0% assumed in the budget.
- A decrease of \$0.7 million in Revenue from Other Agencies is primarily due to revenue that will not be earned by the Police Department as result of decreased participation in grant reimbursed task force activities. This projected short-fall was identified in the First Quarter Financial Report and has been since updated. The revenue shortfall is projected to be offset from salary savings that are generated from vacant positions within the Police Department. These salary savings will decrease as the fiscal year progresses and vacant positions are filled.

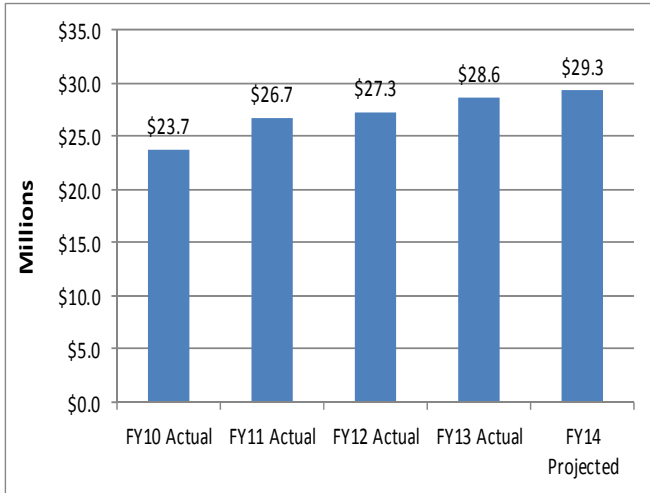
General Fund Revenues

Category	Amended Budget as of 12/31/13	Q2 Projected 6/30/14	Variance
Property Taxes	\$ 26,602,376	\$ 27,115,497	\$ 513,121
Sales Tax	\$ 22,579,885	\$ 21,824,274	\$ (755,611)
Sales Tax In Lieu	\$ 7,274,800	\$ 7,452,738	\$ 177,938
Motor Vehicle License	\$ 16,764,521	\$ 16,781,019	\$ 16,498
Other Revenue	\$ 12,876,622	\$ 13,123,509	\$ 246,887
Transfers In	\$ 10,115,206	\$ 9,974,403	\$ (140,803)
Franchise	\$ 8,719,199	\$ 8,719,199	\$ -
Charges for Services	\$ 7,612,879	\$ 7,596,029	\$ (16,850)
Revenue from Other Agencies	\$ 3,803,051	\$ 3,075,452	\$ (727,599)
Utility Users Tax	\$ 3,512,026	\$ 3,512,026	\$ -
Transient Occupancy Taxes	\$ 2,365,005	\$ 2,468,950	\$ 103,945
Use of Money & Property	\$ 2,289,640	\$ 2,144,300	\$ (145,340)
Other Local Taxes	\$ 1,335,889	\$ 1,368,024	\$ 32,135
Licenses and Permits	\$ 1,309,447	\$ 1,277,150	\$ (32,297)
Fines, Forfeitures, Penalties	\$ 1,110,800	\$ 1,056,022	\$ (54,778)
Real Property Transfer Tax	\$ 800,482	\$ 800,482	\$ -
Total General Fund	\$129,071,828	\$128,289,074	\$ (782,754)

Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 23.2% of General Fund revenues in the fiscal year 2013/14 amended budget. The sales tax revenue projection has been revised in the second quarter to reflect a \$0.7 million shortfall based on a revised growth lower estimated growth rate of 2.3%. Sales tax revenue is still projected to increase beyond the previous fiscal year despite the revised downward second quarter projection.

The following chart represents actual sales tax collections since fiscal year 2009/10 and the projection for fiscal year 2013/14.

Sales Tax

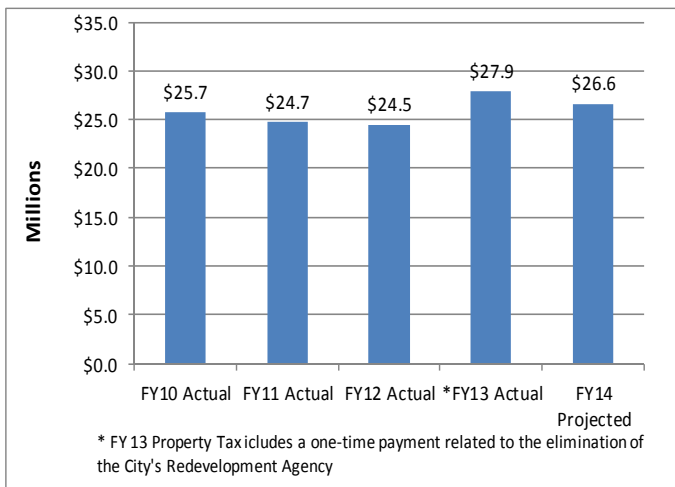


Property Taxes - The City of Chula Vista receives property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 20.3% of General Fund revenues in the fiscal year 2012/13 adopted budget.

Property tax projections increased by \$0.5 million from the first quarter projections. This update reflected the full impact of a 3.4% revised projected increase in city-wide assessed property valuations. Property tax revenue growth was assumed at 2% in the adopted fiscal year 2013/4 budget based on the initial County Assessor's estimate for assessed value growth.

The following chart represents actual property tax revenues since fiscal year 2008/09 and the projection for fiscal year 2013/14.

Property Tax

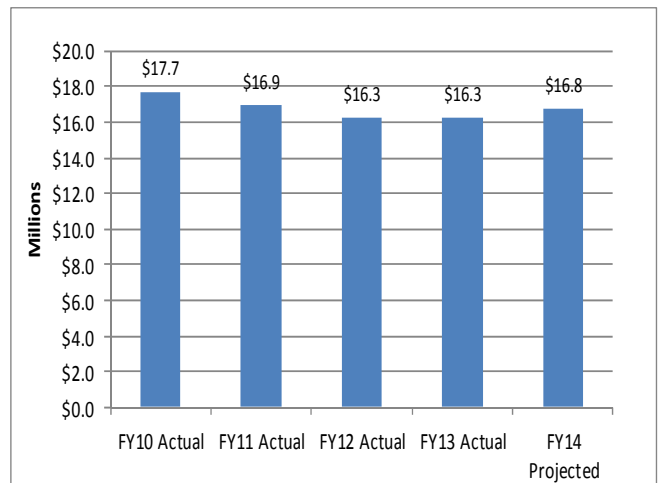


Motor Vehicle License Fee (VLF) – With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Since 2005/06 the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross assessed valuation. Due to the new formula by the State, 96% of the City's VLF revenues fluctuated with changes in assessed values in the City.

The other 4% of VLF revenues received by the City were based on a per capita formula but has since been shifted per SB89. Provisions in SB89 shifted hundreds of millions of Vehicle License Fee revenues to fund the state law enforcement grants. Statewide, SB89 took \$130 million of city general revenue and shifted it to save state law enforcement grant programs. This change applied to the 4% of VLF revenues that were based on a per capita formula. The City of Chula Vista lost approximately \$700,000 annually due to the State take away.

VLF revenue projections were slightly increased in the second quarter over the first quarter projection to reflect the full impact of the 3.4% increase in city-wide assessed valuation projected for fiscal year 2013-14. The second quarter VLF revenue projection is unchanged. The following chart represents actual VLF revenues since fiscal year 2009/10 and the projection for fiscal year 2013/14.

Motor Vehicle License Fee



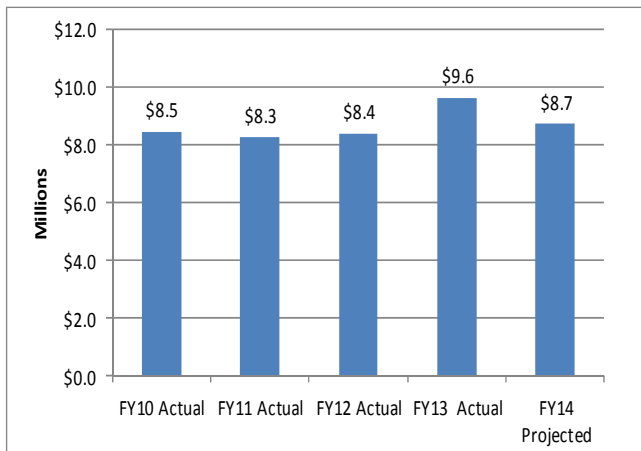
Franchise Fees - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (9.05% fee), and cable franchises (5% fee) conducting business within City limits. The

Utilities collect the franchise fee from Chula Vista customers and remit these revenues to the City.

Projected Franchise Fee revenues were updated in the first quarter based on actual prior fiscal year Franchise fee revenues received. The Franchise Fee revenue projection for the second quarter remains unchanged from the first quarter.

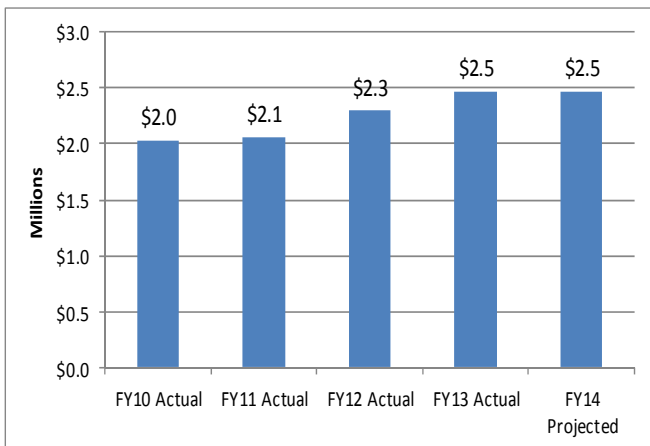
The following chart represents actual franchise fee revenues since fiscal year 2009/10 and the projection for fiscal year 2013/14. Fiscal year actual 2012-13 revenues reflect previously accrued Franchise Fee revenues that were realized by the City.

Franchise Fees



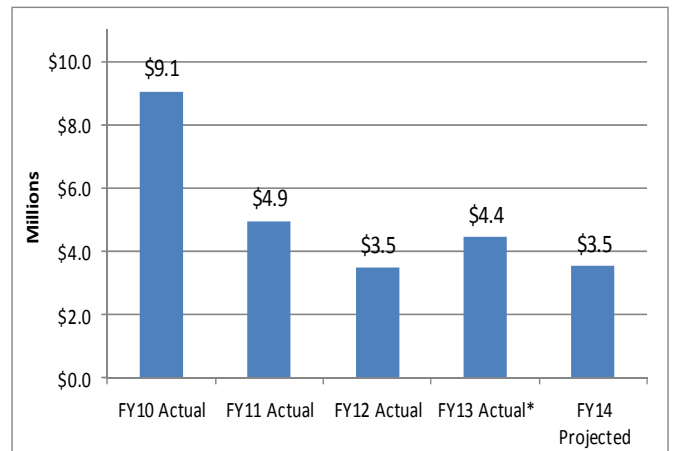
Transient Occupancy Tax (TOT) - The City receives 10% of hotel and motel room rates for stays less than 30 days. Projections for TOT revenues were adjusted upward in the first quarter to reflect the positive trend that began in fiscal year 2012. The second quarter TOT revenue projection is unchanged from the first quarter. The following chart represents actual TOT revenues since fiscal year 2009/10 and the projection for fiscal year 2013/14.

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 5% 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 first quarter projections for UUT revenues indicated that these revenues were tracking at budget. Utility Users Tax revenues continue to track on budget in the second quarter. Therefore there is no change in the second quarter projection for Utility Users Tax. The following chart reflects actual UUT revenue since fiscal year 2009/10. Fiscal year 2013/14 is projected and does not reflect actual collections.

Utility Users Tax (UUT)



*Increased fiscal year 2013-14 Utility User's tax revenue reflects 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 \$127.8 million, mid-year appropriations of \$1.6 million, approved by City Council and \$4.1 million of prior year encumbrances that were carried over into the current fiscal year. The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2013. In total, Departments have expended 44% of the General Fund budget after 50% of the fiscal year has elapsed.

Based on expenditure trends through the end of the second quarter, General Fund expenditures are projected to be under budget by an estimated \$0.5

million. This estimated expenditure savings consists of the following:

- A \$0.9 million projected savings in personnel services due to vacant positions in various City departments. These savings are offset by higher than anticipated overtime costs in the Fire Department. Staff will continue to monitor these costs to determine if these costs can be offset with additional revenue or whether additional appropriations will be necessary.
- A \$0.4 million projected deficit in the supplies and services expense category due to projected overages in various supplies and services object accounts. As of the end of the second quarter, the Police and Fire departments account for the majority of the projected supplies and services deficit. The Police Department will address its projected deficit through a transfer of appropriations from projected salary savings. The Fire department will appropriate additional reimbursement and donation revenues to partially offset their projected supplies and services deficit.
- A projected \$0.3 million savings in capital expenses resulting from expenditures savings for an HVAC project within a City Library facility that was paid through other funding sources. Most of these savings will transferred to offset a projected deficit in Public Works Utilities budget resulting from increased water expenditures for City Park facilities
- A \$0.2 million projected deficit in the utilities expense category is projected due to a projected deficit of \$0.3 million resulting primarily from water costs for City parks. This projected deficit is partially offset by an estimated \$0.1 million savings in other city-wide utility costs.

General Fund Expenditures as of 12/31/2013

Department	Amended Budget as of 12/31/13	Expended as of 12/31/13	% Expended
City Council	\$ 1,244,068	\$ 556,773	45%
Boards & Commissions	\$ 10,076	\$ 4,664	46%
City Clerk	\$ 921,023	\$ 334,846	36%
City Attorney	\$ 2,504,783	\$ 1,135,791	45%
Administration	\$ 2,698,038	\$ 1,137,296	42%
Information Tech Srvcs	\$ 2,964,734	\$ 1,357,718	46%
Human Resources	\$ 2,105,911	\$ 968,954	46%
Finance	\$ 3,630,781	\$ 1,638,452	45%
Non-Departmental	\$ 10,286,338	\$ 4,146,493	40%
General Services	\$ 2,613,126	\$ 1,209,156	46%
Dev Services (GF)	\$ 2,368,617	\$ 1,050,838	44%
Police	\$ 45,409,276	\$ 19,937,428	44%
Fire	\$ 24,180,578	\$ 11,254,792	47%
Public Works	\$ 25,216,218	\$ 11,070,695	44%
Recreation	\$ 3,912,618	\$ 1,616,389	41%
Library	\$ 3,368,106	\$ 1,527,409	45%
Total Expenditures	\$ 133,434,291	\$ 58,947,694	44%

General Fund Expenditure Projections by Department
for June 30, 2014

Department	Amended Budget as of 12/31/14	Q2 Projected 6/30/14	Variance
City Council	\$ 1,244,068	\$ 1,244,068	\$ -
Boards & Commissions	\$ 10,076	\$ 10,076	\$ -
City Clerk	\$ 921,023	\$ 903,488	\$ (17,535)
City Attorney	\$ 2,504,783	\$ 2,446,713	\$ (58,070)
Administration	\$ 2,698,038	\$ 2,611,138	\$ (86,900)
Information Tech Srvcs	\$ 2,964,734	\$ 2,900,388	\$ (64,346)
Human Resources	\$ 2,105,911	\$ 2,048,324	\$ (57,587)
Finance	\$ 3,630,781	\$ 3,546,027	\$ (84,754)
Non-Departmental	\$ 10,286,338	\$ 10,956,138	\$ 669,800
Animal Care Facility	\$ 2,613,126	\$ 2,582,389	\$ (30,737)
Dev Services (GF)	\$ 2,368,617	\$ 2,331,988	\$ (36,629)
Police	\$ 45,409,276	\$ 44,185,083	\$(1,224,193)
Fire	\$ 24,180,578	\$ 25,002,681	\$ 822,103
Public Works	\$ 25,216,218	\$ 25,031,986	\$ (184,232)
Recreation	\$ 3,912,618	\$ 3,810,987	\$ (101,631)
Library	\$ 3,368,106	\$ 3,299,132	\$ (68,974)
Total Expenditures	\$ 133,434,291	\$132,910,606	\$ (523,685)

Budget Transfers

The following table reflects the administrative budget transfers that have been approved through the second quarter. No administrative transfers were approved in the second quarter.

Summary of General Fund Budget Transfers
(July through December 2013)

Date	Description	Department	Amount	From/To
Jul-13	Transfer for refund of over payment	Human Resources	\$ 34	Supplies & Services to Other Expenses
Sep-13	Transfer for folding machine purchase	Finance	\$ 2,875	Supplies & Services to Capital
Sep-13	Transfer to reallocate budget	City Council	\$ 500	Supplies & Services to Personnel Services
Sep-13	Aquatics Security Alarm Repairs	Recreation	\$ 2,700	Personnel Services to Supplies & Services
Sep-13	Transfer for intern reimbursement	City Council	\$ 2,260	Personnel Services to Supplies & Services

Mid-Year Budget Amendments

Mid-year appropriations approved through September 30, 2013 totaled \$1,555,516 with offsetting revenues of \$1,320,696 resulting in a projected net impact of \$234,918 to General Fund reserves.

The City Council approved the following budget amendments during through the second quarter are summarized on the following table:

Summary of General Fund Budget Amendments
(July through December 2013)

Date	Description/Dept	Revenue	Expenditure	Net Impact
7/9/2013	EB Memorial Grant (Police)	\$ -	\$ (6,057)	\$ (6,057)
7/9/2013	EB Memorial Grant (Non-Departmental)	\$ -	\$ 6,057	\$ 6,057
7/23/2013	Solar Financing Project (Non-Departmental)	\$ -	\$ 50,930	\$ 50,930
7/23/2013	Solar Financing Project (Public Works)	\$ -	\$ (44,450)	\$ (44,450)
7/23/2013	Solar Financing Project (Recreation)	\$ -	\$ (6,480)	\$ (6,480)
8/6/2013	Book Donation (Library)	\$ 1,500	\$ 1,500	\$ -
8/6/2013	Salary Adj. Mid. Mgrs./Prof. (Various)	\$ -	\$ 448,908	\$ -
8/6/2013	Salary Adj. Mid. Mgrs./Prof. (Non-Departmental)		\$ (448,907)	
8/13/2013	Harborfest 2013 (Non-Departmental)	\$ 50,000	\$ 50,000	\$ -
8/13/2013	SDLECC Support Admin Fee (Police)	\$ 5,005		\$ (5,005)
9/10/2013	Salary Adj. CVEA/WCEM (Various)		\$ 553,629	\$ 553,629
9/10/2013	Salary Adj. CVEA/WCE (Non-Departmental)		\$ (553,629)	\$ (553,629)
10/1/2013	Appropriations Transfer for Autopulse Purchase (Fire)	\$ -	\$ -	\$ -
10/15/2013	Target Grant for Literacy (Library)	\$ 2,000	\$ 2,000	\$ -
10/15/2013	Public Safety Analyst (PSA) to Sr. PSA reclass (Police)	\$ 850	\$ -	\$ (850)
10/15/2013	Lease for 610 Bay Blvd. (Non-Departmental)	\$ 8,000	\$ 8,000	\$ -
11/5/2013	1st Quarter Budget Adjustments (Various)	\$ 495,541	\$ 495,541	\$ -
11/5/2013	Citywide Critical Needs (Various)	\$ 523,000	\$ 523,000	\$ -
11/19/2013	ALS Paramedic Training Costs		\$ 127,637	\$ 127,637
11/19/2013	Business Cluster Analysis (Non-Departmental)	\$ 128,000	\$ -	\$ (128,000)
11/19/2013	Business Cluster Analysis (Administration)		\$ 128,000	\$ 128,000
11/19/2013	Safe Funds Appropriation Street Signs (Public Works)		\$ 55,000	\$ 55,000
12/10/2013	Fleet Maint. Chrgs. For Equip. Mech. & Inv. Spec. (Public Works/Various)		\$ 58,136	\$ 58,136
12/10/2013	Consulting svcs. Polling and Public Outreach (Non-Departmental)	\$ 106,800	\$ 106,800	\$ -
	Total Budget Adjustments	\$ 1,320,696	\$ 1,555,615	\$ 234,918