



CITY COUNCIL AGENDA STATEMENT



February 19, 2019

File ID: 18-0586

TITLE

- A. QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDING DECEMBER 31, 2018

- B. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2018/2019 BUDGET TO ADJUST FOR VARIANCES AND APPROPRIATING FUNDS THEREFOR (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council accept the report and adopt the resolution.

SUMMARY

The Finance Department, in collaboration with City departments, prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes as of December 31, 2018. The quarterly financial reports are in compliance with Section 504 (f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

In preparing the quarterly financial projections, staff has identified various budget changes that are needed to reflect actual revenues and expenditures or address changes in budgetary needs. For government entities, a budget creates a legal framework for spending during the fiscal year. After the budget is approved by the City Council, there are circumstances which arise that could require adjustments to the approved budget. Council Policy 220-02 "Financial Reporting and Transfer Authority" was established in January of 1996 and allows for budget transfers and adjustments to be completed. This report discusses budget adjustments that staff recommends in the General Fund as well as various other funds to address identified fiscal issues.

In addition to the Fiscal Year 2018/2019 budget recommendations for City funds, this report includes an update on Measure P actual revenues and expenditures as of December 31, 2018.

ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that filing of the quarterly financial status report is not a "Project" as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change to the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the actions proposed are not subject to CEQA.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

DISCUSSION

The Second Quarter Report is developed using six months of recorded (July 2018 through December 2018) activity for Fiscal Year 2018/2019 as of December 31, 2018. The data in this report is the most current data available; however, the data and projections are subject to change.

This report will provide summary information for the following areas:

- Major General Fund Revenues
- Adjustments to General Fund Expenditures
- Adjustments to non-General Fund funds
- Update to the Measure P Fund

Attachment A – Quarterly Financial Report provides additional information for the financial outlook for the General Fund for the current fiscal year including City revenues and expenditures; and a summary of the Long Term Financial Plan (LTFP) covering FY 2020 – FY 2029.

The Finance Department will continue to monitor the City’s actual revenues and expenditures and will provide any significant changes in subsequent quarterly budget monitoring reports.

General Fund Overview

The City’s FY 2019 financial outlook improved as of the end of the second quarter as overall General Fund revenues are projected to exceed projected expenditures by approximately \$2.4 million. The projected improvement is primarily due to an anticipated positive correction from the State of California related to the amount of sales tax allocated to the City; an improved projection for Measure P revenues; a positive adjustment to the Property Tax In-Lieu Vehicle License Fee based upon updated information from the County of San Diego; and increased reimbursements from the State Government for deployment of the City’s Fire Department Strike Team for assisting other jurisdictions responding to emergency situations (wildfires/storms). The increase in the aforementioned revenues is mitigated by increases in Fire Department personnel expenses and transfers to the established Measure A funds (Measure A funds are intended to solely support public safety needs and are transferred to specific funds for tracking and monitoring). Additional information on General Fund revenue and expenditures are provided in the attachment to this report.

Major General Fund Revenues

The City’s major General Fund revenues, which make up approximately 76% of the City’s General Fund revenues, are projected to be over the FY 2019 Amended Budget (Amended Budget) amounts by approximately \$2.6 million. The increased revenue projections are primarily due to an increased projection for the City’s Sales Tax Revenue (\$1.0 million), increased collection of revenues related to the Measure P Sales Tax (\$1.2 million) and the increased projection for Property Tax in Lieu of Vehicle License Fee (\$0.4 million). All other Major revenues are anticipated to meet their projected revenue year-end estimates. Table 1: Fiscal Year 2018/2019 Major General Fund Revenue Projections summarizes the revenue projections.

Table 1 - Fiscal Year 2018/2019 Major General Fund Revenue Projections

Revenue Category	FY 2019 Amended Budget	FY 2019 Projected Budget	Variance
Property Tax	\$ 35,301,977	\$ 35,312,736	\$ 10,759
Sales Tax	\$ 33,698,020	\$ 34,674,606	\$ 976,586
Measure P Sales Tax	\$ 18,085,000	\$ 19,299,000	\$ 1,214,000
Measure A Sales Tax ¹	\$ 13,430,000	\$ 13,430,000	\$ -
PT in lieu of Motor Vehicle License Fee (VLF) ²	\$ 21,886,241	\$ 22,333,660	\$ 447,419
Franchise Fees	\$ 11,691,843	\$ 11,691,843	\$ -
Utility Users Taxes	\$ 5,605,396	\$ 5,605,396	\$ -
Transient Occupancy Tax	\$ 4,102,798	\$ 4,102,798	\$ -
Total	\$ 143,801,275	\$ 146,450,039	\$ 2,648,764

¹Measure A Sales Tax approved by Chula Vista votes in June 2018 and tax commenced on October 1, 2018. Figure represents revenue projections for three quarters of the fiscal year.

²Property 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 remaining General Fund revenues (not represented in Table 1) are anticipated to exceed the Amended Budget by approximately \$2.1 million. The projected increase in revenue is due to increased reimbursements for the City's Fire Department Strike Team (\$1.6 million) and an increase (\$0.5 million) in transfers into the General Fund for services provided by City staff.

All the General Fund revenue categories are shown in Attachment A. The overall General Fund revenues are projected to exceed the Amended Budget by approximately \$4.7 million.

Major General Fund Expenditures

The City's major General Fund expenditure categories, which make up approximately 78% of the City's FY 2019 Projected Budget expenditures, are projected to exceed the Amended Budget by \$1.2 million. The increase in expenditures is primarily due to increase personnel costs for the fire department and a slight increase in the Supplies and Services expense category. The increase costs for the fire department personnel are primarily related to the deployment of the Fire Department Strike Team.

As of the end of the second quarter, the expenditure percentages for the major expense categories are slightly statistically elevated which may be due to the seasonal/cyclical nature of specific staffing needs within certain City departments such as Parks and Recreation. The major expense categories are shown in the following table and additional information related to departmental expenditures is provided in the attachment.

Table 2 - Fiscal Year 2018/2019 General Fund Major Expenditure Projections

Revenue Category	FY 2019 Amended Budget	FY 2019 Projected Budget	Projected Budget Expended to date	Projected Budget Expended (%)
Personnel Services	\$ 128,335,059	\$ 129,468,551	\$ 78,126,913	60.3%
Supplies and Services	\$ 14,041,561	\$ 14,112,190	\$ 6,971,128	49.4%
Utilities	\$ 4,783,376	\$ 4,783,376	\$ 2,957,206	61.8%
Total	\$ 147,159,996	\$ 148,364,117	\$ 88,055,247	59.4%

The remaining General Fund expenditure categories (not represented in Table 2) are anticipated to exceed the Amended Budget by approximately \$1.2 million. This increase is primarily due to the increased transfers of Measure A revenues from the General Fund to the established Measure A funds. Overall, total projected expenditures are anticipated to increase by \$2.4 million over the Amended Budget. Staff continues to monitor expenses for potential impacts to current and future budgets.

One item of note is the assumed investment returns from the City’s pension system (California Public Employees’ Retirement System - CalPERs). One of the factors which influence the City’s annual pension contribution (payment) is the annual investment return rate from the CalPERs investment portfolio. In calculating the City’s pension contribution, CalPERs assumes a 7.25% return rate on their investments for the current fiscal year. However, in the current financial environment, CalPERs investments may not reach their return rate target. This would create a negative impact (increased contribution amount) on the projected future pension payments for the City. Staff will continue to monitor this issue and will make any necessary adjustments to the pension payment projections as more information is made available.

General Fund Adjustments

At the conclusion of the second quarter of FY 2019, the proposed adjustments are minor inter- and intra-Department transfers or are appropriations associated with offsetting revenue. The proposed adjustments are anticipated to result in a net decrease of General Fund costs of approximately \$50,000. The following chart provides a summary of the proposed budgetary adjustments.

Table 3 - General Fund Adjustments Summary - 2nd Quarter Fiscal Year 2018-19

DEPARTMENT	Footnote	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
GENERAL FUND							
City Clerk	1	\$ -	\$ -	\$ 6,742	\$ 6,742	\$ (6,742)	\$ -
Fire Department	2	\$ 1,600,000	\$ -	\$ -	\$ 1,600,000	\$ (1,649,744)	\$ (49,744)
Information Technology	3	\$ -	\$ 50,000	\$ (50,000)	\$ -	\$ -	\$ -
Library Department	4	\$ -	\$ 11,629	\$ -	\$ 11,629	\$ (11,629)	\$ -
Non-Departmental	5	\$ -	\$ 59,404	\$ -	\$ 59,404	\$ (59,404)	\$ -
Parks and Recreation	6	\$ 10,000	\$ (10,000)	\$ -	\$ -	\$ -	\$ -
Public Works Department	7	\$ -	\$ 19,000	\$ -	\$ 19,000	\$ (19,000)	\$ -
TOTAL OTHER FUNDS		\$ 1,610,000	\$ 130,033	\$ (43,258)	\$ 1,696,775	\$ (1,746,519)	\$ (49,744)

General Fund Adjustments Footnotes

- 1 - City Clerk Department - Appropriate \$6,742 in revenue and expenses for refunds of overpayments related to the last election.
- 2 - Fire Department - Appropriate \$49,744 in additional revenues from the ALS Fund for the new AMR service contract; and, appropriate revenues and expenses of \$1.6M for Fire Strike Team deployments.
- 3 - Information Technology Department - Reallocate Measure A Support budget of \$50k from Other Expenses to Supplies and Services for equipment purchases.
- 4 - Library Department - Appropriate \$11,629 in revenue and expenses for unbudgeted grant and donations.
- 5 - Non-Departmental - Appropriate \$59,404 in revenues and expenses for repairs related to the flooding in Building C at the City Hall campus.
- 6 - Parks and Recreation Department - Reallocate \$10,000 from Supplies and Services to Personnel (Hourly) for Park Maintenance expenses.
- 7 - Public Works Department - Appropriate \$19,000 in revenue and expenses for an Emergency Storm Drain repair at Josselyn Avenue.

The significant adjustments to the General Fund Expenditures are described below.

- Appropriation of \$1.6 million in revenues and expenditures for the Fire Department related to

Strike Team Deployments at the beginning of the fiscal year. There were a high-volume of fires throughout the State where City personnel were deployed to battle these fires. Staff is requesting appropriation increases for reimbursements from the State to cover the costs these deployments.

- Appropriation of \$59,404 in revenue and expenses in Non-Departmental for the repair of damage caused by a broken pipe in the basement of Building C at the City Hall campus. Revenues are from the insurance claim to make the repairs to the facility.

Other Funds Adjustments

The following recommended adjustments are for funds outside of the General Fund. The proposed adjustments, displayed in Table 4, have a net cost of approximately \$0.3 million, which are entirely funded with fund balances or current year available revenues. A brief discussion follows the table on the major proposed adjustments.

Table 4 - Budget Transfers Summary - 2nd Quarter Fiscal Year 2018-19

DEPARTMENT	Footnote	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	OTHER CAPITAL	CIP BUDGET	INTERNAL SERVICE	TRANSFERS OUT	UTILITIES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
OTHER FUNDS												
2016 Measure P Sales Tax	1	-	-	-	150,000	-	-	-	-	\$ 150,000	(150,000)	\$ -
Transportation Grants-Gas Tax	2	-	-	-	50,000	-	-	19,000	-	\$ 69,000	-	\$ 69,000
Transportation Sales Tax	3	-	-	18,832	-	-	-	-	-	\$ 18,832	-	\$ 18,832
Advanced Life Support Program	4	161,138	66,408	-	28,000	-	2,509	49,744	-	\$ 307,799	(319,030)	\$ (11,231)
Traffic Safety	5	-	-	-	27,000	-	-	-	-	\$ 27,000	-	\$ 27,000
Other Grants	6	-	20,000	-	-	-	-	-	-	\$ 20,000	(20,000)	\$ -
Local Grants	7	-	50,000	-	25,000	-	-	-	-	\$ 75,000	-	\$ 75,000
Federal Grants	8	-	50,000	-	650,000	-	-	-	-	\$ 700,000	(600,000)	\$ 100,000
CFD 11-M Rolling Hills McM	9	-	-	-	243	-	-	-	-	\$ 243	-	\$ 243
CFD 12-M Otay Ranch Village 7	10	-	-	-	2,770	-	-	-	-	\$ 2,770	-	\$ 2,770
CFD 12M Village 7 Otay Ranch	11	-	-	-	1,163	-	-	-	-	\$ 1,163	-	\$ 1,163
CFD 14M-B-EUC Millenia	12	-	(16,800)	16,000	-	-	-	-	800	\$ -	-	\$ -
CFD 18M Village 3 Otay Ranch	13	-	2,518	-	-	-	-	-	-	\$ 2,518	-	\$ 2,518
Open Space District #03	14	-	-	-	551	-	-	-	-	\$ 551	-	\$ 551
Open Space District #04	15	-	2,448	-	-	-	-	-	-	\$ 2,448	2,448	\$ 4,896
Open Space District #07	16	-	-	5,410	157	-	-	-	1,722	\$ 7,289	-	\$ 7,289
Open Space District #08	17	-	-	-	808	-	-	-	-	\$ 808	-	\$ 808
Open Space District #10	18	-	945	-	880	-	-	-	-	\$ 1,825	-	\$ 1,825
Open Space District #17	19	-	-	-	81	-	-	-	-	\$ 81	-	\$ 81
CFD 07M Eastlake Woods & Vista	20	-	-	-	2,652	-	-	-	-	\$ 2,652	-	\$ 2,652
CFD 08M Vlg 6 McMillin & OR	21	-	-	-	1,970	-	-	-	-	\$ 1,970	-	\$ 1,970
CFD 09M ORV II Brookfield-Shea	22	-	-	-	2,744	-	-	-	-	\$ 2,744	-	\$ 2,744
CFD 99-2 Otay Ranch Vlg 1 West	23	-	-	-	2,096	-	-	-	-	\$ 2,096	-	\$ 2,096
CFD 98-3 Sunbow 2	24	-	-	-	2,212	-	-	-	-	\$ 2,212	-	\$ 2,212
CFD 97-1 Otay Ranch	25	-	-	-	5,497	-	-	-	-	\$ 5,497	-	\$ 5,497
Sewer Income	26	-	-	-	-	(2,000,000)	-	-	-	\$ (2,000,000)	-	\$ (2,000,000)
Trunk Sewer Capital Reserve	27	-	-	350,000	-	-	-	-	-	\$ 350,000	(1,427,000)	\$ (1,077,000)
Sewer Service Revenue	26	-	-	-	-	2,000,000	-	-	-	\$ 2,000,000	-	\$ 2,000,000
Sewer DIFs	27	-	-	(350,000)	-	-	-	-	-	\$ (350,000)	1,427,000	\$ 1,077,000
Equipment Lease Fund	28	-	-	(244,400)	-	-	-	-	-	\$ (244,400)	-	\$ (244,400)
Public Facilities DIF	29	-	-	-	238,000	-	-	-	-	\$ 238,000	-	\$ 238,000
TOTAL OTHER FUNDS		\$ 161,138	\$ 175,519	\$ (204,158)	\$ 1,191,824	\$ -	\$ 2,509	\$ 68,744	\$ 2,522	\$ 1,398,098	\$ (1,086,582)	\$ 311,516

Footnotes

- 1 2016 Measure P Sales Tax - Appropriate \$150,000 in revenues and expenses for Electric Vehicle Rebates.
- 2 Transportation Grants-Gas Tax - Appropriate \$69,000 from Fund Balance for Other Capital related to vehicle costs (\$50,000), and Transfers Out to reimburse the Public Works department (\$19,000).
- 3 Transportation Sales Tax - Appropriate \$18,832 in Other Expenses for the SANDAG Grant from Fund Balance.
- 4 Advanced Life Support Program - Appropriate \$319,030 in revenues and \$307,799 in expenditures for the new AMR Contract.
- 5 Traffic Safety - Appropriate \$27,000 in expenses from Fund Balance for Other Capital.
- 6 Other Grants - Appropriate \$20,000 in revenues and expenses for the Animal Care Facility Grant for Supplies and Services.
- 7 Local Grants - Appropriate \$75,000 from Fund Balance for Local Asset Seizure for Supplies and Services and Other Capital.
- 8 Federal Grants - Appropriate \$600,000 in revenues and \$700,000 in expenses for various Federal Grants (Dept of Justice Asset Seizures and Dept of Treasury Asset Seizures).
- 9-25 Various CFD & Open Space Districts - Appropriate \$36,867 in expenses for the purchase of an Open Space Vehicle for \$23,824, Other Expenses of \$21,410, Supplies & Services of (\$10,889), and Utilities of \$2,522.
- 26 Transfer appropriation of \$2M from the Sewer Income Fund to the Sewer Service Revenue Fund.
- 27 Transfer appropriations of \$1,077,000 in revenues and \$350,000 in expenses from the Trunk Service Revenue Fund to the Sewer DIFs Fund.
- 28 Equipment Lease Fund - Decrease \$244,400 in appropriations as a budget correction for vehicle lease related expenses.
- 29 Public Facilities DIF - Appropriate \$238,000 from Fund Balance for the outfitting of the new Millenia Fire Truck.

The significant adjustments to the Non - General Fund Expenditures are described below.

- Appropriation of \$0.6 million in revenues and \$0.7 million in expenses for various Federal Grants.

- Transfer the appropriation of \$2.0 million in revenue from the Sewer Income Fund to the Sewer Service Revenue Fund as a budgetary correction of funding sources.
- Transfer the appropriation of \$1.1 million in revenues and \$350,000 in expenses from the Trunk Service Revenue Fund to the Sewer DIFs Fund as a budgetary adjustment.

Measure P Fund Overview

In November 2016, Chula Vista voters approved Measure P, authorizing a ½ cent sales tax increase on retail sales within the City for ten years. The funding from the sales tax measure is to allow the City to make progress toward replacing and repairing failing City assets. In December 2016, the City Council adopted the expenditure plan for the Measure P funding. The expenditure plan identified critical deferred maintenance and infrastructure projects for which the Measure P funding was to be allocated toward.

The following table provides an update on the allocation and expenditures (unaudited) for the Measure P funds.

Measure P
Citywide Infrastructure, Facilities and Equipment Expenditure Plan
1/2 cent Sales Tax Revenues over 10 year period
Summary Table as of 12/31/18

Total by Major Category	10-Year Timeframe	Unaudited Totals	Remaining Balance
REVENUES:			
Sales Tax Revenues	\$ 186,299,869	\$ 29,095,750	\$ 157,204,119
Investment Earnings	\$ -	\$ 1,293,576	\$ (1,293,576)
Miscellaneous	\$ -	\$ 150,502	\$ (150,502)
Total Revenues	\$186,299,869	\$ 30,539,828	\$ 155,760,041
EXPENDITURES:			
Fire Stations Repairs/Replacement	24,611,549	110,587	15,966,268
Fire Response Vehicles	19,847,580	4,670,328	882,252
Fire Safety Equipment	5,197,913	355,809	1,029,191
Total Fire Services	\$ 49,657,042	\$ 5,136,724	\$ 17,877,711
Police Response Vehicles	13,301,470	2,201,734	1,063,966
Public Safety Communication Systems	8,678,863	2,164,503	660,646
Police Facility Repairs	2,101,000	436,346	1,564,654
Police Equipment	611,145	159,719	27,665
Total Police Services	\$ 24,692,478	\$ 4,962,303	\$ 3,316,930
Streets	24,474,861	5,780,628	10,101,938
Other Public Infrastructure	14,154,295	942,202	8,457,798
Sports Fields and Courts	16,966,595	372,952	4,212,048
Non-Safety Vehicles	11,195,100	1,458,475	4,108,525
Recreation and Senior Centers	5,000,000	114,963	4,885,037
Civic Center and South Libraries	3,250,000	339,625	2,660,375
Other Public Facilities	6,036,000	228,500	5,307,500
Traffic Signal Systems	7,000,000	87,817	2,912,183
Park Infrastructure	10,307,740	683,611	6,616,389
Citywide Network Replacement	2,080,700	1,866,064	214,636
Citywide Telecommunications	2,000,000	1,518,704	481,296
Total Infrastructure	\$102,465,291	\$ 13,393,541	\$ 49,957,725
Total Proposed Allocations	\$176,814,811	\$ 23,492,567	\$ 71,152,367

DECISION-MAKER CONFLICT

Staff has reviewed the property holdings of the City Council of the City of Chula Vista members and has found no property holdings within 1,000 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

Staff is not independently aware, and has not been informed by any City of Chula Vista City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. This action supports the Operational Excellence goal by communicating the City's projected financial position for the current fiscal year in an open and transparent manner. This transparency supports City Initiative 1.3.1. - "Foster public trust through an open and ethical government."

CURRENT-YEAR FISCAL IMPACT

The Second Quarter Monitoring Report presents updates to revenue and expenditure projections as of December 31, 2018. As a result of the revised projected revenues and expenditures within this report, the overall General Fund revenues are projected to exceed projected expenditures by approximately \$2.4 million. Actions within this report result in a net increase of General Fund budgeted revenues of approximately \$50,000. Staff will continue to monitor actual revenue receipts and expenditures to determine if any budget adjustments will be needed in the future.

Across the non-General Fund funds, multiple actions are recommended for the second quarter, leading to a net cost of approximately \$0.3 million to non-General Fund accounts. These costs are to be addressed with fund balances or revenues from current year services.

ONGOING FISCAL IMPACT

There is no ongoing fiscal impact related to this action for the General Fund.

ATTACHMENTS

1. FY2019 Second Quarter Financial Report

Staff Contact: David Bilby, Finance Department