

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2015 through December 31, 2014 and projecting out to June 30, 2015. 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 HIGHLIGHTS

The Nation - The following national economic occurrences are notable as of the Second Quarter¹:

- Economic growth is forecast to average 3% over the next 2 years as the weaker growth rates that hovered around 2% become a thing of the past.
- The significant drop in oil prices should help further boost consumer spending as this price reduction is estimated to translate into a \$67 billion boon to consumers.
- Unemployment rates should continue to improve as the economy is projected to produce 200,000 to 260,000 jobs on a monthly basis in 2015.

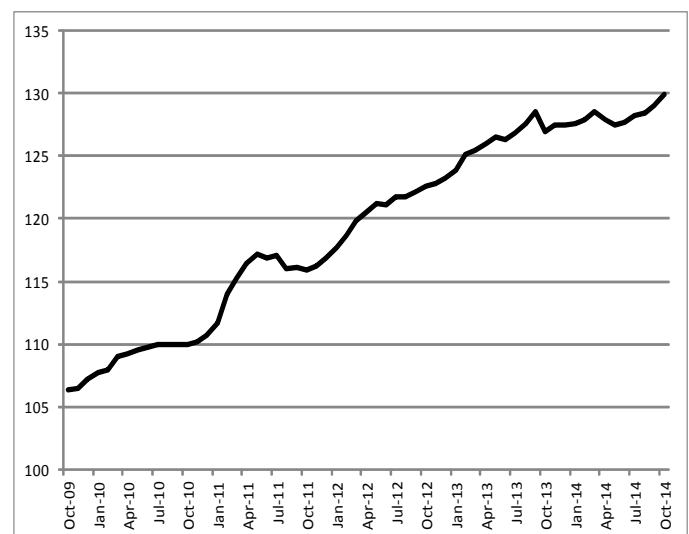
The State - The major changes forecast for the State are as follows²:

- Trepid growth in parts of Asia and Europe will reduce the growth of California's manufactured goods sector.
- Real personal income growth is estimated to be 3.1% in 2014 and forecast to be 4.5% in both 2015 and 2016.
- Unemployment will fall through 2015 and will average approximately 6.6%. In 2016 the unemployment rate is predicted to be approximately 5.6%, a half percent higher than the U.S. forecast.

San Diego Region - The major changes reported in October for the Index of Leading Economic Indicators for San Diego County are as follows³:

- A 0.6% change was reported in October 2014 signaling the fifth consecutive gain for the index. This change may be an indicator of solid growth in the local economy at least through the end of 2015.
- The local unemployment rate was 1.6% lower than last year and civilian employment increased almost 55,000 since the same time last year, indicating perhaps more money is available in the local economy.
- Consumer confidence advanced for the ninth month in a row, which is important since consumer spending is typically two-thirds or more of economic activity.
- Residential units authorized by building permits continue to be the one drag on the local economy. With strong job growth and increasing incomes, the demand for housing remains strong. The problem appears to be on the supply side, with the lack of skilled labor and developable land being the main reason.

**San Diego Index of Leading Economic Indicators
San Diego County, 2009 - 2014**



¹Source: UCLA Anderson Forecast, December 2014

²Source: UCLA Anderson Forecast, December 2014

³Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, December 2014; retrieved from URL: <http://home.sandiego.edu/~agin/usdlel/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, 2014 as well as the projected General Fund reserves for June 30, 2015.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2014 (audited)	\$14.3	\$14.3
Revenues & Transfers In	\$137.3	\$137.6
Expenditures & Transfers Out	(\$137.4)	(\$136.9)
Pending:		
Telegraph Canyon CIP	(\$1.8)	(\$1.8)
Third Avenue Commerical Property	(\$0.3)	(\$0.3)
Projected Surplus/Deficit	(\$2.2)	(\$1.5)
Projected Fund Balance for June 30, 2015	\$12.1	\$12.9
Percentage of Operating Budget	8.7%	9.3%

Notes:

1. The Amended Budget and Projected totals do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$3.7 million that were carried forward into the fiscal year 2014/15 budget. These expenditure impacts are already reflected in the fund balance as of July 1, 2014 and are therefore not included in the above table.
2. On March 3, 2015 City Council will consider two appropriations from reserves - an appropriation of \$1.8 million to establish a capital improvement project, Telegraph Canyon Road Erosion Repair and \$0.3 million for the purchase of a commercial property along Third Avenue. These appropriations are not reflected in the Amended Budget column as the appropriations occurred after the end of the Second Quarter and are outside of this reporting period. However, due to the projected impact to operating reserves they are included on this table.
3. The revenues reflected in the Amended Budget column reflect revenues of \$276,446 that should have been added to the budget as part of budget amendments approved by Council through 12/31/14 but due to an administrative error these revenues were not budgeted. In order to more accurately reflect the fiscal impact of the budget amendments through 12/31/14 these revenues are reflected in the Amended Budget column.

The City's financial outlook appears stable through the end of the Second Quarter. Staff is projecting revenues of \$137.6 million and expenditures of \$136.9 million, for a projected positive impact of \$0.7 million. However, there has been one prior approved appropriation (\$90,000 for two propositions included in the November 2014 election), Council will consider two other appropriations with fiscal negative impact in the current fiscal year (\$1.8 million for the Telegraph Canyon Erosion Repair CIP and \$0.3 million for the purchase of a commercial property along Third Avenue). Taking into consideration these appropriations, the General Fund is projected to end the current fiscal year with a decrease in fund balance of approximately \$1.5 million. Staff will continue to evaluate revenue and expenditures to identify ways to mitigate the projected impact on General Fund reserves.

Overall, General Fund revenues are tracking close to budget and are projected to increase by \$0.3 million above the current amended budget. This increase is due to improved Franchise Fee revenues, Other Revenues, and Transient Occupancy Tax revenues that are projected to increase by a combined \$1.2 million over the current budgeted level. This increase is largely offset by a combined decrease of \$1.0 million in Revenue from Other Agencies, Charges for Services, Sales Tax in Lieu, and Use of Money and Property.

Staff is projecting \$0.5 million in savings for General Fund departments based on year to date expenditure trends. Most City departments are on track to end the year with expenditure savings.

General Fund Revenues – Overall, General Fund revenues reflect a positive trend and are projected to increase by \$0.3 million above the current amended budget. This increase reflects improved Franchise Fee revenues, Other Revenues, and Transient Occupancy Tax revenues that are projected to increase by a combined \$1.2 million over the current budgeted level. This increase is largely offset by a combined decrease of \$1.0 million in Revenue from Other Agencies, Charges for Services, Sales Tax in Lieu, and Use of Money and Property. Major variances include:

- A \$0.6 million increase in Franchise Fee revenues that reflect the updated franchise agreement for waste hauling services negotiated earlier this year.
- A net increase of \$0.5 million in the Other Revenue reflects projected increases in Other Reimbursements to account for reimbursements related to fire strike teams, an insurance reimbursement, and a settlement agreement.
- A \$0.4 million decrease in Revenue from Other Agencies largely reflects projected shortfalls in revenues related to decreased participation in various regional Police Task Forces.
- A net decrease of \$0.3 million in Charges for Services which includes reduced projections for Recreation programs, reimbursements related to the jail, and reduced Animal Shelter fees.

The following table compares the projected revenues included in the amended budget and the updated revenue projections for discretionary and departmental program revenues.

General Fund Revenues

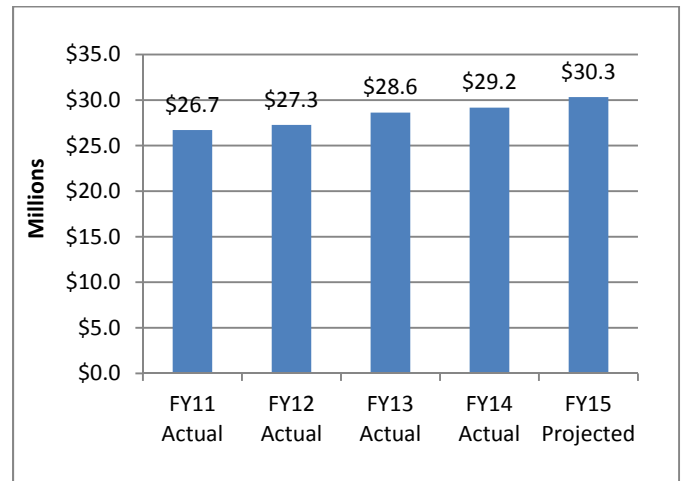
Category	Amended Budget as of 12/31/14	Q2 Projected 6/30/15	Variance
Property Taxes	\$ 28,659,698	\$ 28,662,334	\$ 2,636
Sales Tax	\$ 22,704,845	\$ 22,704,845	\$ -
Sales Tax In Lieu	\$ 7,750,848	\$ 7,615,383	\$ (135,465)
Motor Vehicle License	\$ 17,870,912	\$ 17,883,946	\$ 13,034
Other Revenue	\$ 11,853,747	\$ 12,310,718	\$ 456,971
Transfers In	\$ 10,732,359	\$ 10,694,899	\$ (37,460)
Franchise	\$ 9,563,163	\$ 10,188,250	\$ 625,087
Charges for Services	\$ 7,649,532	\$ 7,339,195	\$ (310,337)
Revenue from Other Agencies	\$ 2,984,310	\$ 2,588,480	\$ (395,830)
Utility Users Tax	\$ 7,175,000	\$ 7,175,000	\$ -
Transient Occupancy Taxes	\$ 2,518,329	\$ 2,687,833	\$ 169,504
Use of Money & Property	\$ 2,439,246	\$ 2,331,036	\$ (108,210)
Other Local Taxes	\$ 2,161,605	\$ 2,152,083	\$ (9,522)
Licenses and Permits	\$ 1,309,447	\$ 1,309,549	\$ 102
Fines, Forfeitures, Penalties	\$ 1,110,800	\$ 1,104,536	\$ (6,264)
Real Property Transfer Tax	\$ 816,492	\$ 816,492	\$ -
Total General Fund	\$ 137,300,333	\$ 137,564,579	\$ 264,246

Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 26.4% of projected General Fund revenues for fiscal year 2014/15. HdL Companies, the City's Sales Tax consultant, recently provided data for the third quarter of calendar year 2014. They report that the change in sales tax receipts between third quarter calendar year 2014 and third quarter calendar year 2013 increased by 4.4% 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 by 0.8% in Chula Vista when compared to the same quarter for 2013. General Consumer Goods are expected to increase by 2.8% on a Statewide level but Chula Vista appears to be lagging behind this trend.

The First Quarter report reflected a projected shortfall in Sales Tax revenues of \$359,000. Based on the most recent data, projected Sales Tax revenues are now tracking on budget. However, Sales Tax in Lieu will fall short of budget by approximately \$135,000 based on the County's estimate. Staff will continue to update Sales Tax projections as more information is received.

The following chart represents actual sales tax collections since fiscal year 2010/11 and the projection for fiscal year 2014/15.

Sales Tax and Sales Tax in Lieu

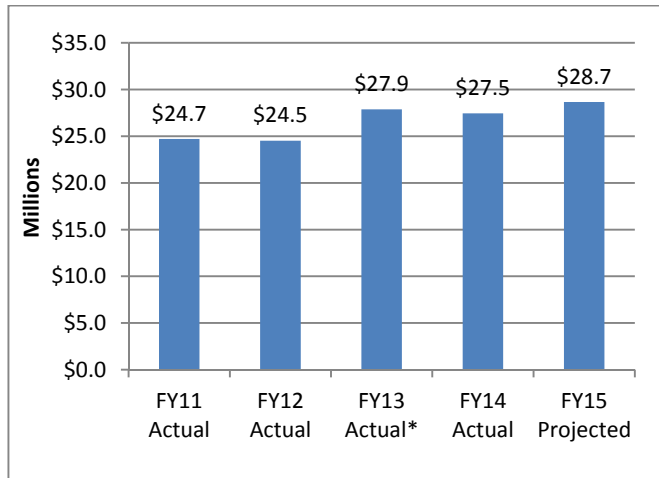


Property Taxes - The City of Chula Vista receives property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 20.8% of projected General Fund revenues for fiscal year 2014/15.

As reported in the First Quarter, the City received information from the County regarding assessed property values (AV) for the City of Chula Vista after the adoption of the budget. The adopted budget reflected 4% growth in AV however, based on the County's most recent report the City should experience 6% growth in AV. In a Council action earlier this fiscal year, the City Council approved an amendment to Property Tax revenues to reflect this change. Property Tax revenues were increased by \$0.6 million when compared to budget. Revenue trends through the end of the Second Quarter are consistent with this change.

The following chart represents actual property tax revenues since fiscal year 2010/11 and the projection for fiscal year 2014/15.

Property Tax



*Fiscal year 2012/13 Property Tax includes a one-time payment related to the elimination of the City's Redevelopment Agency

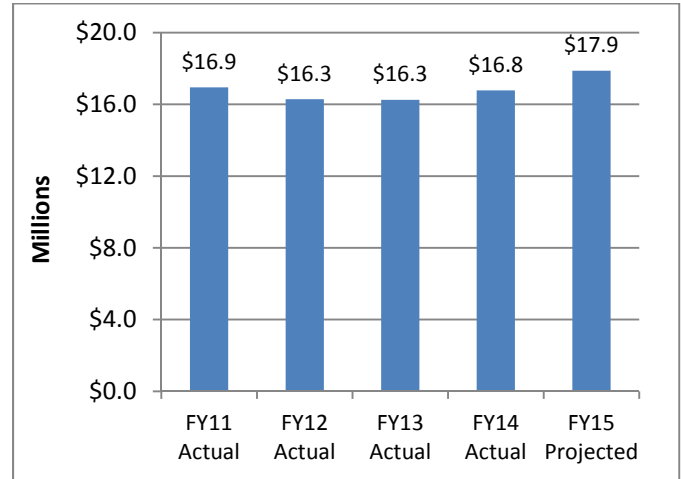
Motor Vehicle License Fee (VLF) – Since the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Beginning in 2005/06, the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross assessed valuation. 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 have been revised to reflect the change in city-wide assessed valuation projected for fiscal year 2014-15. As discussed above, assessed property values (AV) for the City of Chula Vista are projected to grow by 6% as opposed to the 4% reflected in the adopted budget. City Council approved an amendment to VLF Tax revenues to reflect this change. VLF revenues were increased by \$0.4 million

when compared to the adopted budget. Revenue trends through the end of the Second Quarter are consistent with this change.

The following chart represents actual VLF revenues since fiscal year 2010/11 and the projection for fiscal year 2014/15.

Motor Vehicle License Fee

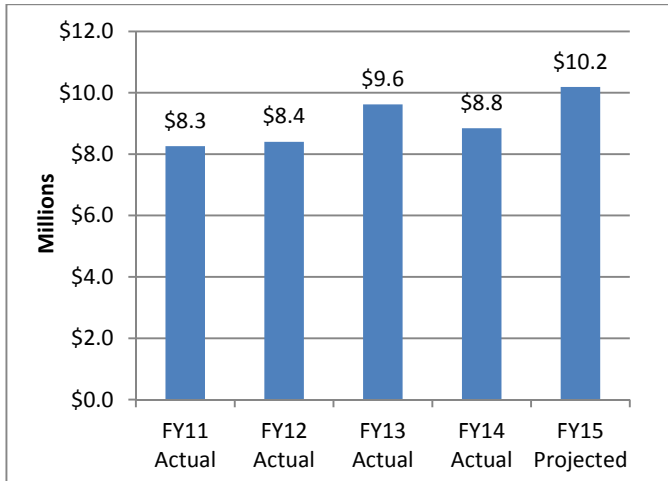


Franchise Fees - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E collects the franchise fee from Chula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

As reported in the First Quarter Financial Report, projections for Franchise Fee revenues have been updated to reflect increases resulting from new franchise agreement negotiated by the City. Revenue trends through the end of the Second Quarter are consistent with this change.

The following chart represents actual franchise fee revenues since fiscal year 2010/11 and the projection for fiscal year 2014/15. Fiscal year actual 2012-13 revenues reflect previously accrued Franchise Fee revenues that were realized by the City.

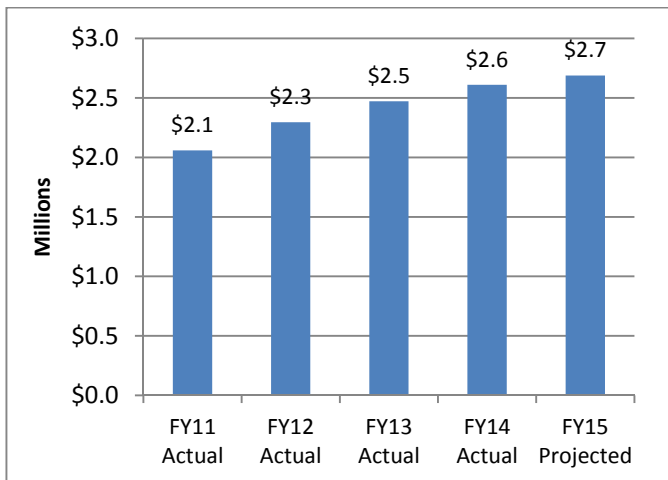
Franchise Fees



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 continued. Based on better than anticipated revenues in fiscal year 2014, the projection for fiscal year 2014/15 has been increased by \$169,500 when compared to the adopted budget. It is anticipated that TOT will continue to grow at a modest pace.

The following chart represents actual TOT revenues since fiscal year 2010/11 and the projection for fiscal year 2014/15. These projections remain unchanged from the First Quarter Financial Report.

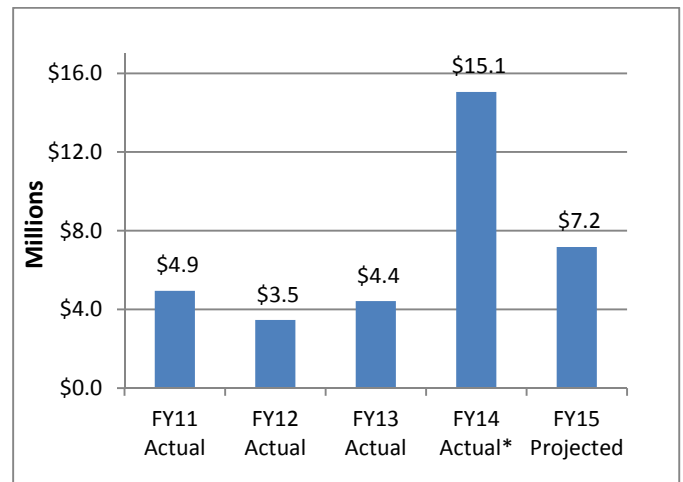
Transient Occupancy Tax (TOT)



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. Current projections for UUT revenues indicate these revenues are tracking at budget.

The following chart reflects actual UUT revenue since fiscal year 2010/11. Fiscal year 2014/15 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.

General Fund Expenditures - The General Fund's amended budget reflects the Council adopted budget of \$134.5 million, Council approved mid-year appropriations of \$2.9 million, and \$3.7 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 \$141.1 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2014. In total, Departments have expended 45% of the General Fund budget after 50% of the fiscal year has elapsed.

General Fund Expenditures as of 12/31/2014

Department	Amended Budget as of 12/31/14	Expended as of 12/31/14	% Expended
City Council	\$ 1,309,326	\$ 661,619	51%
Boards & Commissions	\$ 85,076	\$ 7,522	9%
City Clerk	\$ 985,056	\$ 592,103	60%
City Attorney	\$ 2,644,553	\$ 1,164,943	44%
Administration	\$ 3,090,046	\$ 1,379,231	45%
Information Tech Svcs	\$ 3,201,624	\$ 1,599,006	50%
Human Resources	\$ 2,276,755	\$ 1,103,530	48%
Finance	\$ 3,636,881	\$ 1,666,944	46%
Non-Departmental	\$ 11,555,482	\$ 2,333,676	20%
Animal Care Facility	\$ 2,823,471	\$ 1,277,305	45%
Dev Services (GF)	\$ 2,637,808	\$ 1,280,040	49%
Police	\$ 47,561,415	\$ 22,645,140	48%
Fire	\$ 24,912,156	\$ 12,295,993	49%
Public Works	\$ 26,465,793	\$ 12,236,706	46%
Recreation	\$ 4,210,235	\$ 1,787,264	42%
Library	\$ 3,675,481	\$ 1,735,141	47%
Total Expenditures	\$ 141,071,158	\$ 63,766,163	45%

As part of the Second Quarter Financial review, staff prepared projections for 6/30/2015 based on current expenditures and trends. As noted on the following table, most departments are on track to stay within their budgets. Most City departments are projecting expenditure savings in the current fiscal year. Overall a \$0.5 million net savings in General Fund expenditures is projected. The majority of these savings are estimated to be realized within the departments' Personnel Services expenditure category. The two departments that are exceptions to this trend are:

- Non-Departmental – The Non-Departmental budget reflects a \$1.0 million overage when compared to budget. The overage is due to budgeted salary savings of \$0.8 million, which

actual salary savings are being realized within individual department budgets. Another contributing factor to the projected overage in the Non-Departmental budget is the unanticipated cost related to the Bayfront development of approximately \$0.2 million.

- Fire Department – The Fire Department is projecting a \$0.5 million overage in operating expenses. This projected overage largely reflects the costs for the Fire Academy that began in late February. These costs will be offset by unanticipated revenues. Staff is requesting an appropriation for these costs as part of a separate Council agenda also being considered on March 3rd.

General Fund Projections by Department
for June 30, 2015

Department	Amended Budget as of 12/31/14	Q2 Projected 6/30/15	Variance
City Council	\$ 1,309,326	\$ 1,309,326	\$ -
Boards & Commissions	\$ 85,076	\$ 85,076	\$ -
City Clerk	\$ 985,056	\$ 985,056	\$ -
City Attorney	\$ 2,644,553	\$ 2,619,602	\$ (24,951)
Administration	\$ 3,090,046	\$ 3,090,046	\$ -
Information Tech Svcs	\$ 3,201,624	\$ 3,094,633	\$ (106,991)
Human Resources	\$ 2,276,755	\$ 2,242,919	\$ (33,836)
Finance	\$ 3,636,881	\$ 3,403,429	\$ (233,452)
Non-Departmental	\$ 11,555,482	\$ 12,578,091	\$ 1,022,609
Animal Care Facility	\$ 2,823,471	\$ 2,673,635	\$ (149,836)
Dev Services (GF)	\$ 2,637,808	\$ 2,609,985	\$ (27,823)
Police	\$ 47,561,415	\$ 47,032,576	\$ (528,839)
Fire	\$ 24,912,156	\$ 25,367,902	\$ 455,746
Public Works	\$ 26,465,793	\$ 25,991,703	\$ (474,090)
Recreation	\$ 4,210,235	\$ 4,007,423	\$ (202,812)
Library	\$ 3,675,481	\$ 3,503,805	\$ (171,676)
Total Expenditures	\$ 141,071,158	\$ 140,595,207	\$ (475,951)

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
City Council			
Jul-14	Transfer for copier lease	\$2,000	Supplies & Services to Capital
Jul-14	Transfer to Personnel Services	\$7,850	Supplies & Services to Personnel
City Attorney			
Jul-14	Transfer for copier lease	\$1,600	Supplies & Services to Capital
Administration			
Jul-14	Transfer for copier lease	\$1,520	Supplies & Services to Capital
Oct-14	Consultant for OTC Analysis	\$15,000	Personnel to Supplies & Services
Finance			
Jul-14	Folding machine and copier lease	\$4,500	Supplies & Services to Capital
Development Services			
	St. Mobilehome Park Act Fee	\$35	Supplies & Services to Other Expenses

Mid-Year Budget Amendments

Mid-year expenditure appropriations approved through December 31, 2014 totaled \$2,857,589. The City Council approved changes to budgeted revenues of \$2,487,143. Combined, these changes result in a negative net impact of \$370,446. Due to an administrative error, a budgetary increase of \$276,446 in Franchise Fee revenues was not posted. Adjusting for this omission, the actual fiscal impact of budget amendments approved through the end of the Second Quarter totals \$94,000.

The City Council approved the following budget amendments during through the Second Quarter:

Summary of General Fund Budget Amendments

Date	Description/Dept	Revenue	Expenditure	Net Impact
7/8/2014	Cal Id Finger Print Tech (Police)	\$ 75,000	\$ 75,000	\$ -
7/8/2014	SDG&E Plant (Public Works)	\$ 13,118	\$ 13,118	\$ -
7/22/2014	Rice Canyon Brush Clearance (\$113,000) Transfer (Fire)	\$ -	\$ -	\$ -
8/5/2014	Special Election Charter Amend 1009,10,11 (City Clerk)	\$ -	\$ 47,000	\$ 47,000
8/5/2014	Special Election Charter Amend 1009,10,11 (City Clerk)	\$ -	\$ 47,000	\$ 47,000
8/12/2014	Negotiated Salary Increases with City Bargaining Units (Various)	\$ 1,048,271	\$ 5,659	\$ (1,042,612)
8/12/2014	Council Salary Adjustment	\$ -	\$ 6,034	\$ 6,034
8/12/2014	Deputy City Manager Adj. Salary transfer from (Finance to Admin.)	\$ -	\$ -	\$ -
9/9/2014	Macy's Heart Your Park Prog. (Public Works)	\$ 550	\$ 550	\$ -
10/14/2014	STL 384 & 261 Adjustments (Non-Departmental)	\$ 534,900	\$ 534,900	\$ -
10/28/2014	CRA Funding Agreement (Non-Departmental)	\$ 250,000	\$ 250,000	\$ -
10/28/2014	Dog Park Donations (Public Works)	\$ 10,300	\$ 10,300	\$ -
11/4/2014	1st Qtr. Budget Adjustments (Various)	\$ 163,961	\$ 1,044,471	\$ 880,510
11/4/2014	Police Officers MOU Adj. (Police)	\$ -	\$ 410,503	\$ 410,503
11/18/2014	Misc. Position Adjustments (Various)	\$ -	\$ 22,011	\$ 22,011
12/2/2014	International Assn. Firefighters MOU Adjustments (Fire/Non-Departmental)	\$ 383,543	\$ 383,543	\$ -
12/2/2014	Attorneys Fees Transfer from Non-Departmental (\$300,00) (Non-Departmental/City Attorney)	\$ -	\$ -	\$ -
12/16/2014	HarborFest Appropriation (Administration)	\$ 7,500	\$ 7,500	\$ -
12/16/2014	Amended Compensation Schedule (\$59,813) Transfer (Administration & Human Resources)	\$ -	\$ -	\$ -
	Sub-total Budget Amendments	\$ 2,487,143	\$ 2,857,589	\$ 370,446
	*Franchise Fee Revenues (Non-Departmental)	\$ 276,446	\$ -	\$ (276,446)
	Total Appropriations to date:	\$ 2,763,589	\$ 2,857,589	\$ 94,000