

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2015 through September 30, 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 UPDATE

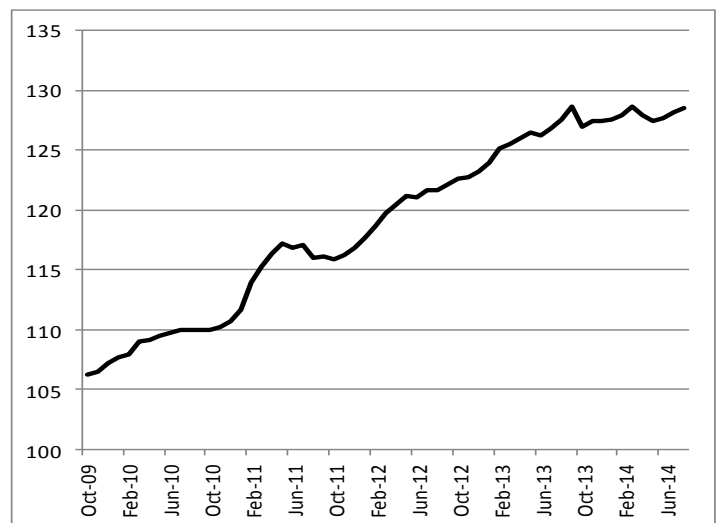
The National Forecast¹ - In the September 2014 report, Senior Economist David Shulman of the UCLA Anderson Forecast predicts inflation at 2 percent or higher over the next two years, driven primarily by rising residential rents and increasing health care costs. The Federal Reserve Board could raise rates by March 2015, in response to declining unemployment and rising inflation. The sectors expected to fuel the nation's economic growth include housing, nonresidential construction and investment in equipment and software. Citing the rise of Islamic State of Iraq and the Levant (ISIL) in the Middle East, and the presence of Russian troops in Ukraine, Shulman deviates from previous forecast by estimating that an additional \$24.0 billion dollars in defense spending through 2016 will take place.

The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg's writes "The California economy is moving forward in an expansion from the depths of the Great Recession. But, even though the number of jobs is now higher than any time in the past, the state remains below its potential in output and employment. That we are entering the sixth year of expansion illustrates just how painfully plodding this recovery process has been." The current forecast accounts for two countervailing forces that will be affecting the California economy: the U.S. economy is growing stronger, while the world economy is expected to be weaker. The result is a forecast that is only slightly stronger than that released in June. New home starts are expected to increase by 5 percent in California and nationwide. Job growth for 2016 is forecasted at 3 percent in California, rising more quickly than growth in the nation. California, employment growth is forecast to be 2.4 percent in 2015 and 2.2 percent in 2016, which will drive down the unemployment rate to 5.7 percent by 2016, just 0.3 percent higher than the U.S. rate.

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County rose 0.3 percent in August. Four of the six components of the San Diego Economic index were up during the month, with initial claims for unemployment insurance and consumer confidence sharply positive and help wanted advertising and the outlook for the national economy up modestly. On the downside, there was a big drop in residential units authorized by building permits and a very small decline in local stock prices.

August's increase was the sixth gain in the USD Index in the first eight months of 2014. The Index started the year strongly, had two bad months in the spring, and has now increased for three consecutive months. The August report also cites that the national index of leading economic indicators has been up in every month of 2014, which forecasts continued growth in the national economy. The outlook is for continued solid growth in San Diego's economy at least through the first half of 2015. The local economy has done well so far this year, with the county on a pace to add almost 31,000 jobs. If that pace continues, it would be the third consecutive year with an increase of more than 30,000 jobs. The last time that happened was during the period 1997 – 2000, which was the "Golden Age" of job growth in San Diego.

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



¹Source: UCLA Anderson Forecast, September 2014

²Source: UCLA Anderson Forecast, September 2014

³Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 2014; 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 unaudited 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 (unaudited)	\$12.73	\$12.73
Revenues & Transfers In ¹	\$135.67	\$136.51
Expenditures & Transfers Out ²	(\$134.73)	(\$135.47)
Pending Appropriations ³		(\$0.96)
Projected Surplus/Deficit	\$0.94	\$0.09
Projected Fund Balance for June 30, 2015	\$13.67	\$12.82
Percentage of Operating Budget	10.15%	9.46%

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund. The Projected surplus reflected in the Amended Budget is a result of a greater than anticipated increase in assessed values. After the adoption of the budget, the City received revised assessed values, which increased the projected amount for Property Tax and Vehicle License Fee revenues. These revenues were recognized by the City Council as part of a mid-year budget amendment.
2. The Amended Budget and projections reflected in this table 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 estimated fund balance as of July 1, 2014 and are therefore not included in the above table.
3. Pending appropriations are primarily for anticipated personnel cost increases related to negotiated wage settlements reached with the International Association of Firefighters (IAFF) and the Chula Vista Police Officers Association (CVPOA).

The City's financial outlook appears stable through the end of the first quarter. Although staff is projecting

fiscal year-end variances in both revenues and expenditures, the variances are offsetting and are not anticipated to negatively impact the City's projected year-end fund balance. Based on activity through the end of the first quarter, the General Fund is projected to end the fiscal year with a small increase in fund balance (\$0.09 million). Overall, General Fund revenues are projected to increase by \$0.84 million above the current amended budget. This increase is due to improved Franchise Fee and Transient Occupancy Tax revenues that are projected to increase by a combined \$1.45 million over the current budgeted level. This increase is offset by a projected decrease of \$0.49 million in Sales Tax and Sales Tax in Lieu revenues that have been revised to grow at 2% versus the 4% growth rate that was assumed in the budget. A \$0.12 million short-fall in Other Revenues is projected due to a Sewer Fund reimbursement that will not be realized by the General Fund.

Staff is projecting \$0.74 million in overages for General Fund Departments based on year to date expenditure trends that consist of the following:

- A \$400,000 increase in the Public Works utilities budget for water costs at City parks based on the previous fiscal year's actual water expenses, projected rate increases, and continuation of drought conditions.
- A \$300,000 reduction in salary savings in the Non-Departmental budget based on lower than anticipated turnover rate.
- A \$24,000 increase in utility expenses in the Non-Departmental budget for utility costs at the City owned property on Bay Boulevard.
- A \$15,000 increase in the City Clerk Department for election related expenses.

The first quarter expenditure projection also assumes \$0.96 million in pending appropriations of which \$0.82 million are for anticipated personnel services costs related to negotiated wage settlements reached with the IAFF and CVPOA. The CVPOA MOU and associated budget appropriations are scheduled for Council consideration on October 28, 2014. The IAFF MOU and associated budget appropriations will be brought to Council by year end. While these appropriations were not made in the First Quarter, they are included in this report to more accurately reflect where staff anticipates ending the fiscal year. The balance of the pending appropriations are for City Clerk clerical support costs, continuation and expansion of the citywide LEAN

training program, and the City's cost share for maintenance of the Otay Valley Regional Park.

Revenues

The following table compares the projected revenues included in the adopted budget and the updated revenue projections for discretionary and departmental program revenues. The projections indicate some variances in discretionary revenues when compared to budget but in total, revenues are expected to slightly exceed budgeted levels by a net \$0.84 million. Variances in revenues reflect the following changes:

- A net increase of \$1.29 million in Franchise Fee revenue reflecting the impact of recently negotiated City franchise agreement.
- A \$0.50 million decrease in Sales Tax and Sales Tax in Lieu revenues based on the revised projection from HdL, the City's Sales Tax consultant. The adopted budget assumed a 4% sales tax growth rate for fiscal year 2014/15; however, this has been revised downward to 2% based on the most recent analysis provided by HdL.
- A \$0.17 million projected increase in Transient Occupancy Tax revenues based on an improved trend for this revenue source.
- A \$0.12 million projected decrease in Other Revenues resulting from a Sewer Fund reimbursement that was budgeted but is not projected to be realized by the Finance Department.

General Fund Revenues

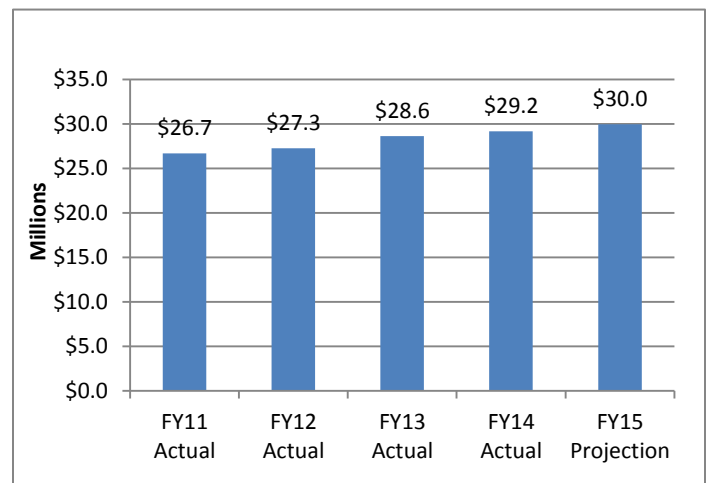
Category	Amended Budget as of 9/30/14	Q1 Projected 6/30/15	Variance
Property Taxes	\$ 28,659,698	\$ 28,659,698	\$ -
Sales Tax	\$ 22,704,845	\$ 22,346,178	\$ (358,667)
Sales Tax In Lieu	\$ 7,750,848	\$ 7,615,383	\$ (135,465)
Motor Vehicle License	\$ 17,870,912	\$ 17,870,912	\$ -
Other Revenue	\$ 11,166,166	\$ 11,046,166	\$ (120,000)
Transfers In	\$ 10,708,779	\$ 10,708,779	\$ -
Franchise	\$ 8,903,174	\$ 10,188,250	\$ 1,285,076
Charges for Services	\$ 7,649,532	\$ 7,649,532	\$ -
Revenue from Other Agencies	\$ 2,728,810	\$ 2,728,810	\$ -
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	\$ 2,439,246	\$ -
Other Local Taxes	\$ 2,161,605	\$ 2,161,605	\$ -
Licenses and Permits	\$ 1,309,447	\$ 1,309,447	\$ -
Fines, Forfeitures, Penalties	\$ 1,110,800	\$ 1,110,800	\$ -
Real Property Transfer Tax	\$ 816,492	\$ 816,492	\$ -
Total General Fund	\$135,673,683	\$136,514,131	\$ 840,448

Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 22.2% of General Fund revenues in the fiscal year 2014/15 amended budget. HdL Companies, the City's Sales Tax consultant, recently provided data for the second quarter of calendar year 2014. They report that the change in sales tax receipts between second quarter calendar year 2014 and second quarter calendar year 2013 increased by 1.9% 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 1.2% 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 fiscal year 2014/15 budget assumed a 4% increase in Sales Tax revenues. In order to be more consistent with the latest information provided by HdL, staff has reduced the projection for Sales Tax revenues by approximately \$359,000 and by \$135,000 for Sales Tax in Lieu. Staff will continue to update these 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

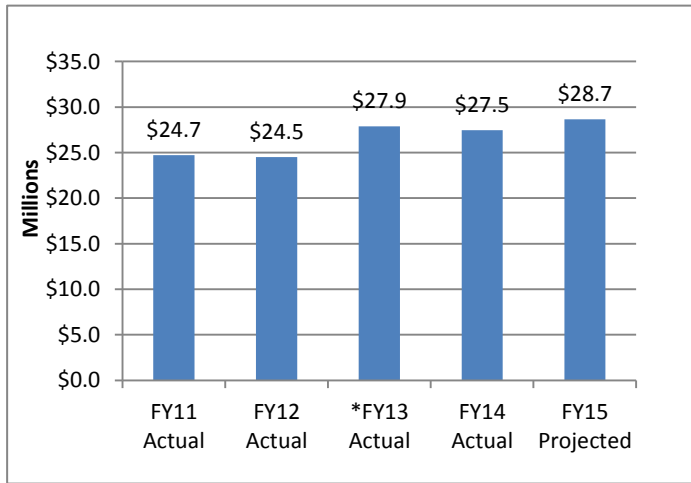


Property Taxes - The City of Chula Vista receives property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 20.3% of General Fund revenues in the fiscal year 2014/15 budget.

Since the adoption of the budget, the City received information from the County regarding assessed property values (AV) for the City of Chula Vista. 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.

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

Property Tax

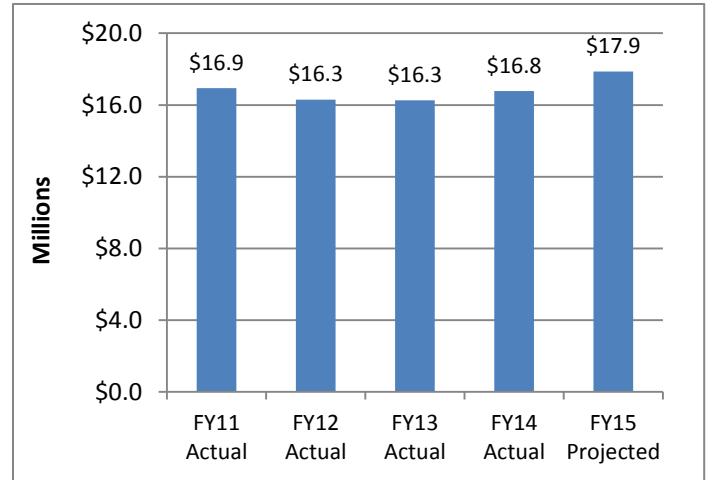


Motor Vehicle License Fee (VLF) – Since the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Beginning in 2005/06, the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross assessed valuation.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

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

Motor Vehicle License Fee

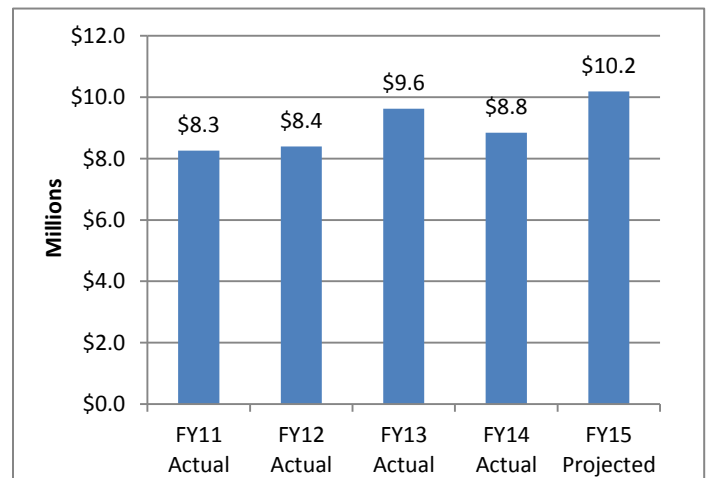


Franchise Fees - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E collects the franchise fee from Chula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

Projections for Franchise Fee revenues have been updated to reflect increases resulting from new franchise agreement negotiated by the City.

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.

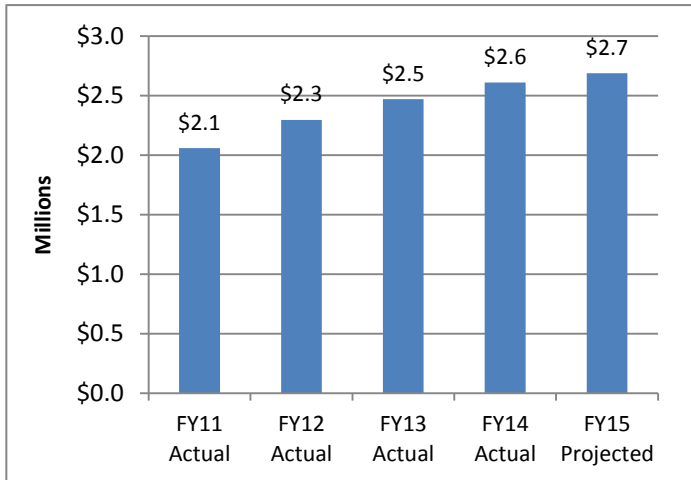
Franchise Fees



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.

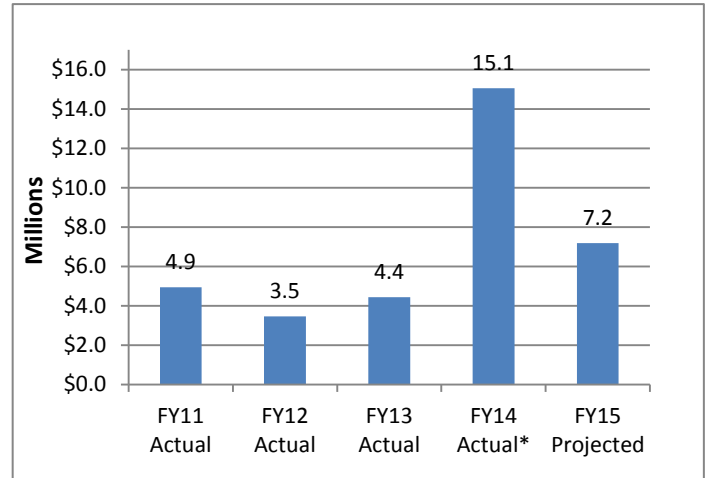
Transient Occupancy Tax (TOT)



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.

Expenditures

The General Fund's amended budget reflects the Council adopted budget of \$134.5 million, and Council approved mid-year appropriations of \$0.2 million, and \$3.7 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 \$138.4 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of September 30, 2014. In total, Departments have expended 22% of the General Fund budget after 25% of the fiscal year has elapsed.

General Fund Expenditures as of 9/30/2014

Department	Amended Budget as of 9/30/14	Expended as of 9/30/14	% Expended
City Council	\$ 1,312,606	\$ 294,547	22%
Boards & Commissions	\$ 85,076	\$ 7,171	8%
City Clerk	\$ 950,674	\$ 164,350	17%
City Attorney	\$ 2,661,295	\$ 513,559	19%
Administration	\$ 3,107,985	\$ 641,487	21%
Information Tech Svcs	\$ 3,205,299	\$ 814,523	25%
Human Resources	\$ 2,219,842	\$ 479,564	22%
Finance	\$ 3,642,538	\$ 745,656	20%
Non-Departmental	\$ 10,166,338	\$ 1,870,143	18%
General Services	\$ 2,783,408	\$ 581,386	21%
Dev Services (GF)	\$ 2,651,088	\$ 594,494	22%
Police	\$ 47,258,612	\$ 10,271,889	22%
Fire	\$ 24,496,945	\$ 5,830,443	24%
Public Works	\$ 26,134,856	\$ 5,451,115	21%
Recreation	\$ 4,122,986	\$ 826,768	20%
Library	\$ 3,608,382	\$ 843,974	23%
Total Expenditures	\$ 138,407,930	\$ 29,931,069	22%

The following table reflects the projected expenditures for June 30, 2015. As noted on the table, most departments are on track to stay within their allocated budget. Staff is recommending budget amendments to address the following projected overages:

- Public Works – Based on fiscal year 2013/14 actual water costs, upcoming rate increase, and the continuation of drought conditions, it is anticipated that the Public Works Department will need an additional \$400,000 for water expenses for City parks.
- Non-Departmental – The fiscal year 2014/15 budget includes \$1.4 million in budgeted salary savings in the Non-Departmental budget. These savings are actually realized in the department budgets as turnover occurs. Due to lower than anticipated turnover and the departments' requests to fill positions as they become vacant, staff is projecting that the salary savings needed to offset the budgeted salary savings in Non-Departmental will not be realized. Staff is recommending reducing budgeted salary savings by \$324,000.

- City Clerk - The fiscal year 2015 budget includes \$219,000 for the November elections for the cost of two propositions and the Mayor, City Council and City Attorney elections. Based on the most recent cost estimate, staff is recommending an appropriation of \$15,000 to the City Clerk's Services and Supplies budget for the costs associated with the November election.

In reviewing the expenditure trends in preparation for this report, there is one other department staff would like to note as a concern. Fire Department overtime appears to be tracking high. The department is also concerned about equipment replacement needs and may need additional funding. Staff will continue to monitor these expenses and return with specific recommendations to address this issue as needed.

General Fund Projections by Department
for June 30, 2015

Department	Amended Budget as of 9/30/14	Q1 Projected 6/30/15	Variance
City Council	\$ 1,312,606	\$ 1,312,606	\$ -
Boards & Commissions	\$ 85,076	\$ 85,076	\$ -
City Clerk	\$ 950,674	\$ 965,674	\$ 15,000
City Attorney	\$ 2,661,295	\$ 2,661,295	\$ -
Administration	\$ 3,107,985	\$ 3,107,985	\$ -
Information Tech Svcs	\$ 3,205,299	\$ 3,205,299	\$ -
Human Resources	\$ 2,219,842	\$ 2,219,842	\$ -
Finance	\$ 3,642,538	\$ 3,642,538	\$ -
Non-Departmental	\$ 10,166,338	\$ 10,490,338	\$ 324,000
Animal Care Facility	\$ 2,783,408	\$ 2,783,408	\$ -
Dev Services (GF)	\$ 2,651,088	\$ 2,651,088	\$ -
Police	\$ 47,258,612	\$ 47,258,612	\$ -
Fire	\$ 24,496,945	\$ 24,496,945	\$ -
Public Works	\$ 26,134,856	\$ 26,534,856	\$ 400,000
Recreation	\$ 4,122,986	\$ 4,122,986	\$ -
Library	\$ 3,608,382	\$ 3,608,382	\$ -
Total Expenditures	\$ 138,407,930	\$139,146,930	\$ 739,000

Budget Transfers

The following table reflects the administrative budget transfers that have been approved through the first 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	\$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
Finance			
Jul-14	Folding machine and copier lease	\$4,500	Supplies & Services to Capital

Mid-Year Budget Amendments

Mid-year expenditure appropriations approved through September 30, 2014 totaled \$194,361. The City Council approved changes to budgeted revenues of \$1,136,939. Combined, these changes result in a positive net impact of \$942,578.

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
7/8/2014	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	Amend 1009,10,11 (City Clerk)	\$ -	\$ 47,000	\$ 47,000
8/5/2014	Amend 1009,10,11 (City Clerk)	\$ -	\$ 47,000	\$ 47,000
8/12/2014	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	\$ -
Total Appropriations to date:		\$1,136,939	\$ 194,361	\$ (942,578)