



# DRAFT LONG TERM FINANCIAL PLAN FISCAL YEARS 2018 TO 2027

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## Long Term Financial Plan

Each year the City of Chula Vista has prepared a General Fund Five-Year Forecast which serves as a tool to identify financial trends, shortfalls, and issues so that the City can proactively address them. For fiscal year 2017-2018, the City's first Long Term Financial Plan is being presented in order to expand the duration of the forecast to ten years from the current five years, as well as to provide a more in depth analysis of the City's fiscal condition to aide in proactive financial decision making. The goal of the Long Term Financial Plan is to assess the City's ability over the next ten years to continue to provide current service levels based on projected growth, preserve the City's long term fiscal health by aligning operating revenues and costs, and to slowly rebuild the operating reserves. As a financial planning document, revenue and expenditure assumptions are included to forecast the impacts of development, legislative changes, pension costs, health care, economic cycles, and many other factors over the next ten years.

It is important to stress that this plan is not a budget. It does not make expenditure decisions but rather highlights the need to prioritize the allocation of City resources. The purpose of the plan is to provide an overview of the City's fiscal health based on various assumptions over the next ten years and provide the City Council, management, and the citizens of Chula Vista with a "heads up" on the financial outlook beyond the annual budget cycle. The Long Term Financial Plan is intended to serve as a planning tool to bring a long-term perspective to the budget process.

The following assumptions were used in the preparation of the ten year projections attached.

### **Economic & Population Growth**

Inflation is a measure of the increase for the cost of goods and services. Inflation impacts many revenues, such as rents and leases, and most expenditure categories throughout the plan. Normally inflation averages around 2% per year. With the recent approval of Senate Bill 3 by California Governor Jerry Brown the state minimum wage will be increasing to \$15 per hour by the year 2022. As a result expenditure inflation may be significantly higher than normal over this period of time. While it is impossible to calculate the exact impacts year by year, it is reasonable to assume that employers will be passing along the increased labor costs into their costs of goods and services. The state minimum wage proposal calls for an increase in minimum wage to \$10.50 in 2017, \$11 in 2018 and one dollar each year through 2022. The ten year forecast includes expenditure inflation on the supplies and services category ranging from 5%-9% per year until 2022. While the City does not currently pay minimum wage for any of its authorized positions, the increases in minimum wage will exceed current wages for some hourly, part-time, and seasonal staff. Those positions are adjusted by a higher than normal inflation factor through 2022 in the ten year forecast.

The regional, state, and national economies continue to recover at a modest pace from the recession of 2007-2009. The two major factors that have supported the recovery are the growth in the housing market related to new development and housing price appreciation, as well as job creation reflected in the strong unemployment figures. While most current U. S. economic forecasts show continued growth

over the next 12-18 months, global recessionary pressures continue to build. China's explosive economic expansion is beginning to slow to a more sustainable level. Oil producing nations have suffered greatly as a result of the oil price collapse over the last 36 months. The majority of the European economies continue to struggle to achieve any measurable growth which has required the European Central Bank to maintain extremely low interest rates to avoid a pronounced recession. This lack of inflation in Europe has put pressure on U.S. interest rates as the "risk-off" trade of Federal Securities continues to be the investment vehicle of choice for many conservative investors. The U.S. national debt continues to build while entitlement liabilities within the Social Security, Medicare, and the Health Care system provides cause for concern as it relates to future economic growth assumptions. The projections assume a slowdown in sales tax revenue growth from 2018-2020 as a result of all of these factors.

### **Major Revenues**

Sales tax revenue will increase moderately in FY 2018 with projected slow growth anticipated at 1.5%-2% in Fiscal Years 2018-2020 as detailed in the previous section of this report. A reasonable assumption of sales tax growth in forecast years 5-10 is based upon normal inflation increases along with population growth.

Property tax revenue is the City's most stable revenue source. The severe housing recession late last decade decimated property values and therefore severely reduced property tax revenues from 2008-2012. A steady recovery has ensued since that time. Another housing recession is not predicted during the forecast period. Stable property tax revenue growth is assumed throughout the forecast period.

Franchise Fees, Utility User Taxes, and Motor Vehicle License Fees are all projected to grow at a steady rate throughout the forecast period.

Transient occupancy tax will see significant increases as a result of three new major hotels planned for development in the eastern part of the City over the next five years. Most of the City's current hotels/motels are of the discount or budget variety. The three new hotels will be in the mid-range service level and will attract more business travelers and tourists to the City. The City recently took over the ownership and operation of the Olympic Training Center in the City. It is anticipated that future events at the training center will further support robust growth in transient occupancy tax. The City currently anticipates the first hotel opening sometime in calendar year 2017 with the second and third hotels opening between 2018 and 2019.

### **Expenditures**

Personnel Services for fiscal year 2017-18 reflect assumed wage inflation of 2% per year. At the time of the writing of this document the City was entering negotiations with four of the five bargaining groups. For purposes of the ten year forecast, wage inflation is assumed at 2% per year. It is important to note that this figure is simply an assumption and does not represent a commitment or obligation, but rather provides a baseline for wage related inflation in the future.

Beginning in 2017-18, salary savings are calculated at 1% of projected Salary/PERS/Medicare expenditures. This is based upon normal position vacancy rates and savings as a result of voluntary furlough elections by employees.

The Workers Compensation Fund is close to depleting its fund balance. This fund was established to account for revenues and expenditures related to workers compensation claims and litigation. The Workers Compensation charges allocated to the General Fund will need to increase in order to fund anticipated Workers Compensation expenditures and begin to build reserves.

The Public Liabilities Trust Fund is also close to depleting its fund balance. This fund was established to account for revenues and expenditures related to litigation activities citywide. Additional General Fund allocations will be required in order to maintain sufficient reserves within this fund.

### **Pension Costs**

The City contracts with CalPERS for retirement benefits for all full time benefitted employees. The City currently has three tiers of employees based upon their start date within the CalPERS system and with the City of Chula Vista. For each of the benefit rates referenced below, CalPERS uses the percentage of service credit earned in one year (3%, 2%, etc.) and the full retirement age (60, 50, etc.) to describe their tiers. Tier 1 employees include employees who became members of CalPERS and started with the City of Chula Vista prior to 4/22/2011. Miscellaneous tier 1 employees receive benefits at the rate of 3% at 60. Public Safety tier 1 employees receive benefits at the rate of 3% at 50. Tier 2 employees include employees that became members of CalPERS or a reciprocal agency prior to 1/1/2013 but started with the City after 4/22/2011. Miscellaneous tier 2 employees receive benefits at the rate of 2% @ 60. Public Safety tier 2 employees receive benefits at the rate of 2.7% @ 55, and PEPR, or Tier 3 employees include all employees that are new members to CalPERS on or after 1/1/2013. Tier 3 employees receive benefits at the rate of 2% @ 62.

All City employees are separated into two retirement employment categories, miscellaneous and public safety, in the annual CalPERS actuarial valuation reports. These reports provide the City with two very important figures. The first is the City's unfunded liability which is the amount the City would have to pay to CalPERS today to completely pay off all pension liability. The unfunded liability is the amount of money it would take to bring the City's pension plan to 100% funded status. As of June 30, 2015, the most recent CalPERS valuation report available, the City's unfunded liability for the miscellaneous category was \$153.8 million and for the public safety category it was \$107.4 million. The second important figure is the City's required employer contribution. This is amount of money the City will need to contribute for the fiscal year towards pension costs. For fiscal year 2017-18 the required employer contribution for the miscellaneous category is \$15.3 million, an increase of approximately \$1.1 million from fiscal year 2016-17. For the public safety category the fiscal year 2017-18 required employer contribution is \$13.4 million, an increase of approximately \$1.2 million from fiscal year 2016-17. These two numbers are used to calculate the City's minimum employer contribution rate. This is the rate of base pay the City must contribute to cover an employee's pension costs.

CalPERS valuation reports also provide the City with a five year projection of future employer contribution rates that the City can utilize in making long term projections. Since the projection will always be almost a year and half old by the time it is complete, the City hired an actuarial consultant to prepare a more up to date analysis of our projected employer contribution rates. The results of this analysis are included in the ten year projections attached. For miscellaneous employees, the projected future employer contribution rate will rise from 31.5% in fiscal year 2017-18 to 44.4% in 2026-27. For public safety employees, the projected employer contribution rate will rise from 35.6% in fiscal year 2017-18 to 57% in 2026-27. This means that in the year 2027 for every \$1 the City pays to Miscellaneous employees, the City will have to contribute an additional \$0.41 to CalPERS to cover pension obligations. This number increases to \$0.52 for public safety employees.

In December, 2016 the CalPERS board approved a reduction in their stated discount rate from 7.5% to 7.0%. This change will result in a 30-40% increase in the City's unfunded pension liability as well as increasing normal pension costs. The 10 year forecast includes the anticipated impacts of this change.

Part time employees receive retirement benefits through PARS. PARS is an alternative to Social Security for Part-Time, Seasonal, and Temporary employees. The City and employees both currently contribute 3.75% of salary towards the PARS contribution amount of 7.5%.

### **Health Care**

The City currently offers employees four medical plan options: UHC (value and full); UHC PPO; and Kaiser HMO. The City does allow retirees to stay enrolled in the City's health plans at the same rate as our active employees. The City recently went out to bid to ensure the best overall value for the plans offered to our employees. As a result of the bid process, Aetna was replaced by UHC for the value, HMO, and PPO plans. At the time of the production of this document 2018 rates were unknown. The medical plan cost history over the last five years shows that Kaiser has increased by an average of 3.5% per year. Cost history for UHC is not available since they are a new provider to the City. The City's health insurance broker anticipates that average annual health insurance costs will increase by 10% per year over the ten year forecast period, in line with the industry average.

### **Asset Management**

The Asset Management Program was developed to identify, assess, and plan for the repair and replacement of all City assets. The first step of the program consists of documenting all assets owned and managed by the City. This documentation includes inventorying all assets, performing a condition assessment on each of them, valuing the assets, and creating a hierarchy. The second step of the program is to prioritize the need by critically ranking all assets by risk level and level of importance. The third step of the program is to perform a life cycle cost assessment in order to develop a plan for financing the entire program.

The program consists of nine separate systems which are outlined below. Using the steps described above, the assets in each system have been sorted by red (high risk zone), yellow (medium risk zone), and green (low risk zone). This allows for the City to make decisions on each asset (repair, replace,

renovate, liquidate, shut down, relocate, etc.) and to budget available resources towards the repair and replacement of these assets. With seven of nine systems completed, the red category has \$115 million in estimated funding required to repair and replace these high risk assets. The yellow category currently has an estimated \$437.6 million in funding required for repair and replacement costs.

- Building Management System (BMS)
- Drainage Management System (DMS)
- Fleet Management System (FMS)
  - Police
  - Fire
  - General Government
- General Government Management System (GGMS)
- Open Space Management System (OSMS)
- Parks Management System (PMS)
- Roadways Management System (RMS)
- Urban Forestry Management System (UFMS)
- Wastewater Management System (WMS)

During the development of the Asset Management program, it became clear that additional funding would be needed to fund the additional infrastructure projects and equipment. After extensive research into viable funding options, City staff recommended moving forward with Measure P, a half-cent sales tax measure with a ten year sunset period. City Council approved the ballot measure in July 2016 and the measure ultimately passed with approximately 68% of the vote in favor. Staff projects Measure P revenue at approximately \$170 million dollars over the ten year period.

### **Development Impacts**

As new major developments are proposed in the City, each developer is required to submit a fiscal impact analysis to ensure that the City's revenues generated from the project will meet or exceed the anticipated expenditures. Many of the developments within the City were initiated prior to the recession and housing market crash late last decade. The recession and reduction in property values has caused the revenues to be below what was originally anticipated. The timing of the revenues related to new development can vary greatly depending on how fast the market can absorb the new inventory and the economic condition throughout the development process.

### **Items Not Included In the Plan**

Several projects are in conceptual planning or negotiation stages and therefore cannot be accurately forecast during the ten year forecast period. The Bayfront project has been discussed for many years. This project would bring a variety of residential and commercial developments to an area of the City that is currently underutilized. Discussions are ongoing with the various resource agencies, governments, and developers. This Long Term Financial Plan does not include potential revenue growth assumptions from Bayfront related indirect development. As mentioned previously, the City recently

signed an agreement with the United States Olympic Committee to take over the ownership of the Olympic Training Center. Although it is likely that this change in use of this venue will attract new tourism to the City, an accurate forecast for actual revenue generated by the Center would be difficult to project at this time. This plan will include an update annually to these projects and any future projects that are being considered.

**10 Year Projections**

The following table includes major revenue and expenditure categories for the City’s General Fund over a ten year forecast period assuming maintaining current baseline services. It is important to understand that this is only a forecast and not indicative of what the budgets will be in future years. Assumptions have been made about the state of the economy, the City’s future costs, as well as projected expenditures. In general, the farther you project into the future the less accurate the forecast will be. Every effort was made in the creation of the forecast to base assumptions on industry best practices.

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## LONG-TERM FINANCIAL PLAN (in millions)

Description	Forecast FY 2018	Forecast FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027
<b>Revenues:</b>										
Property Taxes	\$ 33.26	\$ 34.17	\$ 35.10	\$ 36.06	\$ 37.05	\$ 38.07	\$ 39.12	\$ 40.20	\$ 41.31	\$ 42.46
Sales Tax	\$ 32.71	\$ 33.53	\$ 34.37	\$ 35.23	\$ 36.11	\$ 37.01	\$ 37.94	\$ 38.88	\$ 39.86	\$ 40.85
Franchise Fees	\$ 11.99	\$ 12.19	\$ 12.39	\$ 12.59	\$ 12.80	\$ 13.01	\$ 13.22	\$ 13.44	\$ 13.67	\$ 13.89
Utility Users Taxes	\$ 6.44	\$ 6.51	\$ 6.57	\$ 6.64	\$ 6.71	\$ 6.77	\$ 6.84	\$ 6.91	\$ 6.98	\$ 7.05
Transient Occupancy Taxes	\$ 3.73	\$ 3.77	\$ 3.82	\$ 3.90	\$ 3.98	\$ 4.06	\$ 4.14	\$ 4.22	\$ 4.30	\$ 4.39
Motor Vehicle License Fees	\$ 20.61	\$ 21.23	\$ 21.86	\$ 22.51	\$ 23.18	\$ 23.88	\$ 24.59	\$ 25.32	\$ 26.08	\$ 26.86
<b>SUBTOTAL MAJOR DISCRETIONARY REVENUES</b>	<b>\$ 108.75</b>	<b>\$ 111.38</b>	<b>\$ 114.11</b>	<b>\$ 116.93</b>	<b>\$ 119.82</b>	<b>\$ 122.80</b>	<b>\$ 125.85</b>	<b>\$ 128.98</b>	<b>\$ 132.20</b>	<b>\$ 135.50</b>
Development Revenue	\$ 1.04	\$ 1.05	\$ 1.05	\$ 1.06	\$ 1.06	\$ 1.07	\$ 1.07	\$ 1.08	\$ 1.08	\$ 1.09
Licenses and Permits	\$ 1.18	\$ 1.21	\$ 1.23	\$ 1.26	\$ 1.28	\$ 1.31	\$ 1.33	\$ 1.36	\$ 1.39	\$ 1.41
Fines, Forfeitures & Penalties	\$ 1.04	\$ 1.06	\$ 1.08	\$ 1.10	\$ 1.13	\$ 1.15	\$ 1.17	\$ 1.20	\$ 1.22	\$ 1.24
Use of Money and Property	\$ 2.76	\$ 2.79	\$ 2.81	\$ 2.84	\$ 2.87	\$ 2.90	\$ 2.93	\$ 2.96	\$ 2.99	\$ 3.02
Other Local Taxes	\$ 2.47	\$ 2.50	\$ 2.52	\$ 2.55	\$ 2.57	\$ 2.60	\$ 2.62	\$ 2.65	\$ 2.68	\$ 2.70
Police Grants	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66	\$ 0.66
Other Agency Revenue	\$ 2.06	\$ 2.08	\$ 2.10	\$ 2.12	\$ 2.14	\$ 2.16	\$ 2.18	\$ 2.20	\$ 2.23	\$ 2.25
Charges for Services	\$ 6.23	\$ 6.27	\$ 6.30	\$ 6.33	\$ 6.36	\$ 6.39	\$ 6.42	\$ 6.46	\$ 6.49	\$ 6.52
Interfund Reimbursements	\$ 9.84	\$ 9.94	\$ 10.03	\$ 10.13	\$ 9.78	\$ 9.88	\$ 9.98	\$ 10.08	\$ 10.18	\$ 10.28
Other Revenues - Miscellaneous	\$ 0.91	\$ 0.91	\$ 0.92	\$ 0.92	\$ 0.93	\$ 0.93	\$ 0.94	\$ 0.94	\$ 0.95	\$ 0.95
Transfers From Other Funds	\$ 10.80	\$ 10.80	\$ 10.80	\$ 10.80	\$ 10.80	\$ 10.80	\$ 10.80	\$ 10.80	\$ 10.80	\$ 10.80
<b>SUBTOTAL OTHER REVENUES</b>	<b>\$ 39.00</b>	<b>\$ 39.25</b>	<b>\$ 39.51</b>	<b>\$ 39.77</b>	<b>\$ 39.58</b>	<b>\$ 39.85</b>	<b>\$ 40.11</b>	<b>\$ 40.38</b>	<b>\$ 40.66</b>	<b>\$ 40.93</b>
<b>NEW DEVELOPMENT REVENUES</b>										
Property Taxes	\$ 0.45	\$ 0.72	\$ 1.02	\$ 1.41	\$ 1.76	\$ 2.11	\$ 2.46	\$ 2.81	\$ 3.17	\$ 3.35
Sales Tax	\$ 0.15	\$ 0.32	\$ 0.45	\$ 0.59	\$ 0.74	\$ 0.85	\$ 0.96	\$ 1.06	\$ 1.16	\$ 1.26
Franchise Fees	\$ 0.13	\$ 0.21	\$ 0.29	\$ 0.38	\$ 0.48	\$ 0.57	\$ 0.67	\$ 0.76	\$ 0.84	\$ 0.93
Utility Users Taxes	\$ 0.05	\$ 0.09	\$ 0.12	\$ 0.16	\$ 0.20	\$ 0.24	\$ 0.27	\$ 0.31	\$ 0.35	\$ 0.83
Transient Occupancy Taxes	\$ 0.53	\$ 0.53	\$ 0.53	\$ 1.55	\$ 1.55	\$ 1.55	\$ 1.55	\$ 1.55	\$ 1.55	\$ 1.55
Motor Vehicle License Fees	\$ 0.31	\$ 0.50	\$ 0.71	\$ 0.99	\$ 1.24	\$ 1.48	\$ 1.73	\$ 1.97	\$ 2.20	\$ 2.35
Other Revenues - Miscellaneous	\$ 0.17	\$ 0.27	\$ 0.38	\$ 0.50	\$ 0.62	\$ 0.74	\$ 0.86	\$ 0.98	\$ 1.06	\$ 1.69
Other Local Taxes	\$ 0.15	\$ 0.15	\$ 0.18	\$ 0.26	\$ 0.28	\$ 0.31	\$ 0.31	\$ 0.33	\$ 0.35	\$ 0.30
<b>SUBTOTAL NEW DEVELOPMENT REVENUES</b>	<b>\$ 1.95</b>	<b>\$ 2.77</b>	<b>\$ 3.68</b>	<b>\$ 5.82</b>	<b>\$ 6.84</b>	<b>\$ 7.82</b>	<b>\$ 8.80</b>	<b>\$ 9.75</b>	<b>\$ 10.67</b>	<b>\$ 12.26</b>
<b>TOTAL REVENUES</b>	<b>\$ 149.70</b>	<b>\$ 153.41</b>	<b>\$ 157.30</b>	<b>\$ 162.52</b>	<b>\$ 166.24</b>	<b>\$ 170.46</b>	<b>\$ 174.76</b>	<b>\$ 179.12</b>	<b>\$ 183.53</b>	<b>\$ 188.69</b>
<b>Expenditures:</b>										
Personnel Services	\$ 87.98	\$ 88.82	\$ 90.52	\$ 92.23	\$ 94.01	\$ 95.80	\$ 97.63	\$ 99.50	\$ 101.40	\$ 103.35
Flex/Insurance	\$ 13.63	\$ 14.63	\$ 15.71	\$ 16.87	\$ 18.14	\$ 19.51	\$ 20.99	\$ 22.60	\$ 24.35	\$ 26.24
PERS	\$ 25.84	\$ 29.23	\$ 32.50	\$ 35.45	\$ 38.84	\$ 41.97	\$ 44.63	\$ 46.99	\$ 48.52	\$ 50.71
PERS Discount Rate Change	\$ -	\$ 1.43	\$ 3.37	\$ 7.02	\$ 7.23	\$ 4.69	\$ 7.67	\$ 7.62	\$ 7.87	\$ 8.11
Salary Savings (On Going)	\$ (0.96)	\$ (1.04)	\$ (1.09)	\$ (1.14)	\$ (1.22)	\$ (1.28)	\$ (1.33)	\$ (1.38)	\$ (1.43)	\$ (1.48)
PERS Prepayment Savings	\$ (0.82)	\$ (0.95)	\$ (1.07)	\$ (1.17)	\$ (1.31)	\$ (1.43)	\$ (1.53)	\$ (1.62)	\$ (1.68)	\$ (1.77)
<b>SUBTOTAL PERSONNEL SERVICES EXPENDITURES</b>	<b>\$ 125.66</b>	<b>\$ 132.12</b>	<b>\$ 139.94</b>	<b>\$ 149.26</b>	<b>\$ 155.68</b>	<b>\$ 159.27</b>	<b>\$ 168.06</b>	<b>\$ 173.70</b>	<b>\$ 179.04</b>	<b>\$ 185.16</b>
Supplies and Services	\$ 15.24	\$ 16.62	\$ 17.95	\$ 19.38	\$ 20.74	\$ 21.15	\$ 21.58	\$ 22.01	\$ 22.45	\$ 22.90
Utilities	\$ 5.79	\$ 6.08	\$ 6.38	\$ 6.70	\$ 7.03	\$ 7.39	\$ 7.76	\$ 8.14	\$ 8.55	\$ 8.98
Other Expenses	\$ 0.57	\$ 0.58	\$ 0.59	\$ 0.61	\$ 0.62	\$ 0.63	\$ 0.64	\$ 0.66	\$ 0.67	\$ 0.68
Equipment (Capital not CIP)	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.17	\$ 0.18
Transfers/Debt Service	\$ 9.08	\$ 6.27	\$ 6.37	\$ 6.27	\$ 6.22	\$ 6.29	\$ 6.28	\$ 6.25	\$ 6.24	\$ 5.99
Capital Improvement Projects	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-CIP Project Expenditures	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02
<b>SUBTOTAL OTHER EXPENDITURES</b>	<b>\$ 30.86</b>	<b>\$ 29.72</b>	<b>\$ 31.47</b>	<b>\$ 33.14</b>	<b>\$ 34.79</b>	<b>\$ 35.64</b>	<b>\$ 36.44</b>	<b>\$ 37.25</b>	<b>\$ 38.09</b>	<b>\$ 38.74</b>
<b>NEW DEVELOPMENT EXPENDITURES</b>										
4.0 Truck Staffing for Millenia and Bayfront	\$ -	\$ 1.80	\$ 1.92	\$ 2.02	\$ 4.27	\$ 4.50	\$ 4.71	\$ 4.92	\$ 5.14	\$ 5.36
Peace Officer Funding	\$ 0.70	\$ 1.48	\$ 2.35	\$ 3.30	\$ 4.36	\$ 5.51	\$ 6.72	\$ 8.02	\$ 9.41	\$ 10.90
Millenia Parks Maintenance	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08
Fire Station Supplies and Services	\$ -	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
<b>SUBTOTAL NEW DEVELOPMENT EXPENDITURES</b>	<b>\$ 0.78</b>	<b>\$ 3.51</b>	<b>\$ 4.50</b>	<b>\$ 5.56</b>	<b>\$ 9.03</b>	<b>\$ 10.40</b>	<b>\$ 11.83</b>	<b>\$ 13.34</b>	<b>\$ 14.95</b>	<b>\$ 16.65</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 157.30</b>	<b>\$ 165.35</b>	<b>\$ 175.91</b>	<b>\$ 187.96</b>	<b>\$ 199.50</b>	<b>\$ 205.31</b>	<b>\$ 216.32</b>	<b>\$ 224.28</b>	<b>\$ 232.08</b>	<b>\$ 240.55</b>
<b>TOTAL GENERAL FUND SURPLUS/(DEFICIT)</b>	<b>\$ (7.61)</b>	<b>\$ (11.94)</b>	<b>\$ (18.61)</b>	<b>\$ (25.44)</b>	<b>\$ (33.25)</b>	<b>\$ (34.85)</b>	<b>\$ (41.56)</b>	<b>\$ (45.17)</b>	<b>\$ (48.55)</b>	<b>\$ (51.86)</b>
<b>SURPLUS/(DEFICIT) AS % OF BUDGET</b>	<b>-5%</b>	<b>-7%</b>	<b>-11%</b>	<b>-14%</b>	<b>-17%</b>	<b>-17%</b>	<b>-19%</b>	<b>-20%</b>	<b>-21%</b>	<b>-22%</b>
<b>ADMINISTRATIVE ACTIONS</b>										
Utility Savings through Measure P Projects	\$ 0.83	\$ 1.65	\$ 2.48	\$ 2.48	\$ 2.48	\$ 2.48	\$ 2.48	\$ 2.48	\$ 2.48	\$ 2.48
Citywide Transition to Paperless Operations	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05	\$ 0.05
<b>TOTAL ADMINISTRATIVE ACTIONS</b>	<b>\$ 0.88</b>	<b>\$ 1.70</b>	<b>\$ 2.53</b>							
<b>SURPLUS/(DEFICIT) WITH ADMINISTRATIVE ACTIONS</b>	<b>\$ (6.73)</b>	<b>\$ (10.24)</b>	<b>\$ (16.08)</b>	<b>\$ (22.92)</b>	<b>\$ (30.73)</b>	<b>\$ (32.32)</b>	<b>\$ (39.04)</b>	<b>\$ (42.64)</b>	<b>\$ (46.03)</b>	<b>\$ (49.34)</b>

## **Debt Capacity**

The City anticipates completing a comprehensive Benchmarking and Measuring Debt Capacity in the next year. This will identify the City's ability to manage its existing debt payments into the future and determine if new debt is feasible. The City currently has four outstanding Certificates of Participation that are funded with General Fund contributions, Public Facilities Development Improvement Funds (PFDIF), and/or the Residential Construction Tax Funds (RCT). The 2002 Certificates of Participation (COPS) were issued in the amount of \$60.145 million to fund the City's Police Facility. The 2004 COPS were issued in the amount of \$37.24 million to fund the Civic Center Phase I improvements as well as the Western Chula Vista Infrastructure projects. The 2006 COPS were issued in the amount of \$20.325 million to fund the Civic Center Phase II improvements as well as Nature Center Improvements. The 2010 COPS were issued in the amount of \$29.355 million to fund the Civic Center Phase III improvements as well as to refund \$16.5 million of the Carp Yard 2000 COPS. In 2014, the 2002 COPS were refunded by the 2014 COPS in the amount of \$45.92 million. In 2015, the 2004 COPS and part of the 2006 COPS were refunded by the 2015 COPS. Total annual debt service payments are approximately \$9.2 million consisting of approximately \$3.1 million in General Fund contributions, \$5.5 million in PFDIF, and approximately \$0.6 million in RCT funds. The City recently completed refundings of the remaining 2006 COPS and the 2010 COPS in July 2016 which will generate savings of approximately 9.3% and lower the annual debt service amounts. In addition, the City refunded all outstanding Tax Allocation Bonds in July 2016 which will generate savings of 12.3% for the taxing entities and increase property tax revenue for the City.

## **Potential Solutions to Resolve Structural Operating Deficit**

The ten year projections indicate a high likelihood of future structural deficits. Cost increases are outpacing revenue growth throughout the forecast period. Below are possible actions that could be undertaken in order to bridge the funding gap.

**Technology** – One option for the City to overcome its structural deficit is to identify and purchase technology that provides a positive return on its public investment. Technology can increase service levels to the constituents without raising costs to the City (ex. Third Party Mobile Applications), it can create new revenues to the City that exceed its costs, or it can reduce costs overall through the replacement of manual processes (ex. provide more services with the same amount of staff).

**Efficiency** – Similar to technology, efficiencies can be achieved by changing “how we do things.” The City encourages its employees to take part in the Lean Academy which teaches employees how to take an existing activity, and through a series of steps, transform it into a more efficient time and money saving process. Combining a lean process with technology, utilized affectively, could dramatically improve the City's fiscal condition. The City is currently looking into converting many of its fleet to electric vehicles to create efficiencies in our mechanic shop since electric vehicles require less maintenance as well as creating fuel and insurance savings.

**Use of One-Time Funds** – Many cities adopt use of one-time funds policies so that as grants, donations, and unexpected revenues are received, the funds are allocated to the highest priority in the City

automatically. A typical one-time funds policy would first allocate additional revenues to a reserve fund until the minimum required reserve is met, then perhaps a vehicle and equipment replacement fund, and finally a comprehensive asset management program. Other potential uses of one-time funds include projects and services that create ongoing revenue streams (ex. solar projects, business attraction incentives, etc.).

Public Private Partnerships – Public private partnerships can take a variety of forms. One great example of this partnership currently taking place in the City of Chula Vista is within the City’s library system. Several non-profit organizations partner with the City to provide services to the public at local libraries at low or no cost. Expanding these partnerships citywide could create new money saving opportunities for the City as employees of non-profit organizations could serve as an extension of City staff. Non-Profit organizations have strengths in fund raising, tax status, and volunteers that make many services much cheaper to provide to the public than for a local government. Other creative public-private partnerships that have been used by other cities include adopt-a-park programs where citizens or local organizations volunteer to maintain or rehabilitate an existing park (ex. Living Coast Discovery Center, Olympic Training Center).

Internship/Volunteer Programs – Many public and private organizations utilize volunteers and internships to support staff with one time projects, special events, research, and analysis. While these individuals do not perform day-to-day duties of our current employees, they are able to add value without significant cost. If managed properly, a robust internship/volunteer program can create significant financial benefits to the City. At the same time, the individuals receive valuable experience and skills that can make them more attractive when seeking full time employment.

Contract Services – Cities commonly contract out for a variety of services including but not limited to: legal; engineering; financial; and specialty services typically in cases where the City does not possess the in-house expertise to perform the function most efficiently.

Service levels – Service level can be defined simply as the quantity and quality of the services provided by a City. As economic cycles occur and City revenues rise and fall, the most difficult job for a City is to maintain service levels. The structural deficit detailed in the ten year forecast demonstrates the severity of the projected fiscal condition of the City and the importance of balancing service levels with financial resources. In conjunction with priority based budgeting detailed below, the City should first undertake a comprehensive review of all services provided. By defining these services and setting a minimum standard for the delivery of those services a model could be developed that prioritizes where potential reductions in service level could take place with the least overall impact to the citizens of Chula Vista.

Changing our Service Delivery Model – In order to balance the City’s budget in future years, a change in the service delivery model may be required within some divisions or departments. This is different than simply contracting out or reducing service levels, but rather emphasizes trying a new way to deliver services currently provided to our constituents. A recent example would be the purchase of a mobile application that citizens can use to notify the City of items requiring maintenance throughout the City. Prior to the mobile application citizens would have to call or email the City, which is less efficient than

the mobile application currently used. The City should review how other governmental agencies are providing services to determine if any new and innovative service delivery models exist that can be implemented to offset future cost increases.

**Fees/Cost Recovery** – In general, local governments provide many services to the general population at no charge (ex. Police, Fire, Road Maintenance, Park Maintenance, etc.). These services are paid for with general revenues that the City receives including sales tax, property tax, and a variety of other smaller general revenues. Cities also provide many services that are a specific benefit to the party requesting the service. Reviewing development plans, inspecting buildings, renting a park space, etc. are all examples of services the City provides that are paid directly by a citizen or developer. The City's current master fee schedule was adopted to set the fees for all services the City provides directly to a citizen or developer. In practice fees should be set to recover all costs. Some services are subsidized by the City in order to encourage participation in a program or event. It is important to review all subsidized fees periodically to assess the feasibility of continuing to subsidize these services in the future.

**Priority Based Budgeting** – During the recession the City put together a Fiscal Recovery Plan. The plan detailed the steps necessary to navigate through the worst recession in over eighty years by prioritizing divisions and functions and making reductions where necessary in order to balance the budget. By taking a bottom up approach, as discussed in the service levels section, the City could review and classify all services by priority in order to identify functions and programs that can be restructured either through attrition or reorganization. Some finance officers refer to this as “zero based budgeting” because it starts with a blank budget and funds are allocated in priority order until all funds are allocated.

**Competitive Purchasing** – The City's Municipal Code and Charter set competitive bidding requirements on materials, supplies, equipment, and services that the City procures. The minimum threshold of those competitive requirements starts at \$10,000 for a single purchase. The reason that cities have minimum bidding thresholds is because at some point it becomes an administrative burden to try and get quotes or bids on smaller dollar items. With more powerful online procurement tools, the City now has the ability to get bids extremely efficiently. Procurement cards also provide incentives and negotiated pricing when the City uses them for purchases. Consideration should be made to lower the bidding threshold for certain types of purchases in order to achieve the highest value added procurement program possible. Other procurement related money saving ideas include purchasing manufacturer refurbished items, floor models, certified pre-owned, and alternative product selection (higher value, lower cost).

**Municipal Code/Charter Updates** – The City's Municipal Code and Charter lay out the specific terms in which the City must operate. Some areas of the code and Charter are very specific, while other are more general, allowing for some flexibility to City staff when dealing with unique situations. Cities must follow all federal and state laws and codes, but Charter cities such as Chula Vista may impose stricter rules and requirements upon which the City is governed. Some of these rules require greater resources to be spent in order to remain in compliance as compared to more lenient state laws. A thorough

review of the existing Charter and Municipal Code may be reveal potential money saving opportunities that could be recommended to Council for consideration.

### **Potential Solutions to Resolve Structural Infrastructure Deficit**

Revenue Measures (Sales Tax, Property Tax) – The City’s assets continue to age and will require additional repair and rehabilitation in the coming decade and beyond. Measure P, passed in November 2016 will provide much needed funding for a significant portion of the City’s Asset Management Program over the next ten years.

Many of the solutions mentioned in the operating section overlap into the infrastructure section. These include Public/Private Partnerships, Competitive Purchasing, Use of One-Time Funds, and Service Levels.

### **Conclusion**

In order to preserve and maintain the valuable resources and quality of life the citizens have enjoyed over the years, the City will need to make a concerted effort to adopt several of the solutions mentioned above. Proactive planning and a commitment to a fiscally sustainable service delivery model will be required.

DRAFT