

## OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2017 through September 30, 2016 and projecting out to June 30, 2017. 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 Forecast<sup>1</sup> - In the September report, UCLA Anderson Forecast Director Ed Leamer looks into the factors driving the current U.S. economy, one that has been growing steadily at 2% following quarterly growth rates of 3% for the 40 years between 1965 and 2005. However Leamer points out that growth since 2010 has been so eerily steady that it is defining an entirely new corridor at 2% instead of 3%. Overall, Leamer forecasts that although the economy continues to be on track for moderate growth, enthusiasm has dampened and expectations are revised slightly downward. Instead of looking for 3.3% growth in real GDP for 2016 on a fourth quarter-basis, the Anderson Forecast anticipates a more modest 2.7% growth rate. Despite the lower GDP growth rate, the economy remains on track to create 2.7 million jobs this year and 2.1 million jobs next year, as the economy operates at full employment.

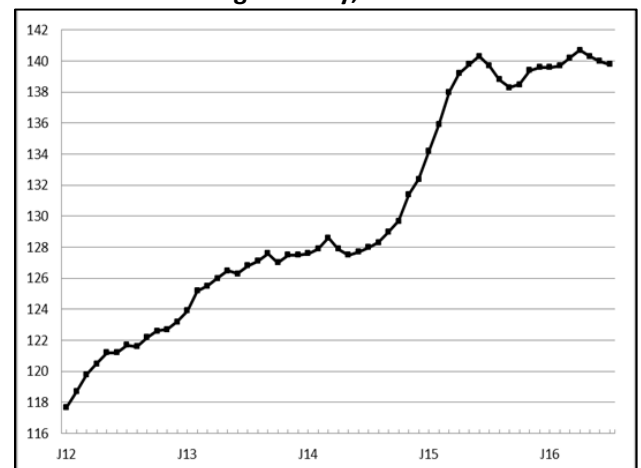
The California Forecast<sup>2</sup> - In the California forecast, Senior Economist Jerry Nickelsburg focuses on the state's employment situation. Although California experiences "full employment," Nickelsburg warns of a number of risks, including the extension of Prop 30, which is on the September ballot (Prop 30, first passed in 2012, taxes the state's top earners at a higher rate, leaving the state government vulnerable in times of recession) and the upcoming presidential election, as the next president's policies might have an impact on international trade, a sector on which California relies. The California Forecast has been revised downward slightly, as a consequence of slower than expected growth in the U.S. in 2016. Overall, the current Forecast calls for continued steady gains in employment through 2018 and a steady decrease in the unemployment rate in California over the next two years. Nickelsburg further estimates total employment growth

for 2016 to be 2.0%, and forecasts 1.6% and 0.8% growth for 2017 and 2018 respectively. Payrolls will grow at about the same rate over the forecast horizon. Real personal income growth is estimated to be 3.1% in 2016 and forecast to be 3.4% in 2017 and 3.0% in 2018.

The San Diego Forecast<sup>3</sup> - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators County rose 0.1 percent in August. The gain was led by a strong gain in local stock prices. There were also moderate increases in residential units authorized by building permits and consumer confidence. These outweighed a big drop in help wanted advertising and small losses in initial claims for unemployment insurance and the outlook for the national economy to push the USD Index to a gain which broke a streak of three consecutive monthly declines.

The slight gain in the index relieved some concern that the local economy might be turning negative after 3 months of decline in the index. The gain in August validated the non-turning point view, but it was close, with the gain being small and with declining components matching advancing ones. The outlook for the local economy remains positive, but the rate of growth is likely to slow.

**San Diego Index of Leading Economic Indicators  
San Diego County, 2012 – 2016**



<sup>1</sup> Source: UCLA Anderson Forecast, September 2016

<sup>2</sup> Source: UCLA Anderson Forecast, September 2016

<sup>3</sup> Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 2016; retrieved from URL: <http://home.sandiego.edu/~agin/usdle/index.html>

**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, 2016 as well as the projected General Fund reserves for June 30, 2017.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2016 (unaudited)	\$ 17.68	\$ 17.68
Revenues & Transfers In <sup>1</sup>	\$ 146.54	\$ 148.03
Expenditures & Transfers Out <sup>2</sup>	\$ (146.52)	\$ (148.88)
Projected Surplus/Deficit	\$ 0.02	\$ (0.85)
Projected Fund Balance for June 30, 2017	\$ 17.70	\$ 16.83
Percentage of Operating Budget	12.1%	11.3%

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund. The minor surplus reflected in the Amended Budget column is a result of a mid-year Council approved 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 \$5.7 million that were carried forward into the fiscal year 2016/17 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2016 and are therefore not included in the above table.

The City's financial outlook is tentative through the end of the first quarter. Although revenues are projected to increase modestly from the amended budget level, expenditures are trending higher and are projected to exceed the budget as of first quarter review.

The City's major discretionary revenues including Property Tax, Sales Tax and Motor Vehicle Licenses are projected to be within budget. Overall, General Fund revenues are projected to exceed the budget by \$1.5 million. The projected increase is primarily due to a Fire Strike Team

reimbursement received by the Fire Department that will be used to offset overtime costs incurred as a result of responding to fire emergencies outside of the City. Other smaller increases in Charges for Services revenues (\$0.3 million) and Fines and Forfeiture revenues (\$0.1) million are also projected. It is important to note that anticipated increases to Charges for Services offset anticipated increases in overtime in the Police Department for special events.

Departmental expenditures are tracking within budgeted levels with the exception of the Police and Fire Departments. Although there are small variances that exist within the department projections, it is anticipated that the departments will mitigate these impacts within their current amended budget. Therefore, the majority of the departments are projected to be within their budgets as of the end of the fiscal year. Personnel Services are currently projected to end the fiscal year at a deficit of \$1.8 million over the amended budget. Departmental expenditures for Supplies and Services are also projected to be over by \$0.6 million over the amended budget. All other expenditure categories including Utilities, Other Expenses, Transfers Out and Capital expenditures are projected to be within budget as of the first quarter.

The anticipated deficits are in the Police and Fire departments as each is projecting overages in Personnel Services and Supplies Services. The projected deficits for both departments are largely due to overages in hourly wages and overtime expenditures.

The Police Department is proactively working on ways to help mitigate the structural deficit by implementing innovative changes including restructuring workloads, contracting out services and identifying key opportunities to reduce the need for overtime. However, these changes are not anticipated to eliminate the deficit completely. The department will revise the estimates in the second quarter. The projected deficit for Supplies and Services within the Police department is primarily associated with ammunition, uniform, training and existing contract related operating expenditures. The department will continue to look for ways to offset the impact to the General Fund by looking for alternative funding sources.

The deficit for the Fire Department is due to overtime for constant minimum staffing in Personnel Services and for

automotive repair expenses in the Supplies and Services expense category. This projected deficit will be mitigated by the appropriation of revenues received as a result of Fire Strike Team reimbursements.

## Revenues

The following table compares the projected revenues included in the adopted budget and the updated revenue projections for discretionary and departmental program revenues. Overall, General Fund revenues are projected at \$1.5 million above the current amended budget. The major variances are as follows:

Category	Amended Budget as of 9/30/2016	Q1 Projected as of 9/30/2016	Variance
Property Taxes	\$ 31,174,827	\$ 31,174,827	\$ -
Sales Tax	\$ 32,350,442	\$ 32,350,442	\$ -
Motor Vehicle License	\$ 19,692,436	\$ 19,692,436	\$ -
Other Revenue	\$ 12,024,594	\$ 13,206,543	\$ 1,181,949
Transfers In	\$ 11,949,135	\$ 11,949,135	\$ -
Franchise Fees	\$ 11,795,951	\$ 11,795,951	\$ -
Charges for Services	\$ 7,079,282	\$ 7,361,400	\$ 282,118
Revenue from Other Agencies	\$ 2,079,908	\$ 2,018,947	\$ (60,961)
Utility Users Tax	\$ 6,379,964	\$ 6,379,964	\$ -
Transient Occupancy Taxes	\$ 3,654,779	\$ 3,654,779	\$ -
Use of Money & Property	\$ 2,731,601	\$ 2,731,901	\$ 300
Other Local Taxes	\$ 2,256,753	\$ 2,256,753	\$ -
License and Permits	\$ 1,321,085	\$ 1,321,085	\$ -
Fines, Forfeitures, Penalties	\$ 1,020,700	\$ 1,107,305	\$ 86,605
Real Property Transfer Tax	\$ 1,023,661	\$ 1,023,661	\$ -
<b>TOTAL REVENUES</b>	<b>\$ 146,535,118</b>	<b>\$ 148,025,129</b>	<b>\$ 1,490,011</b>

- A projected \$1.2 million increase in the Other Revenue category due to pending appropriations for Fire Strike Team reimbursements. This increase is offset with an increase in anticipated expenditures within the Fire Department.
- A projected \$0.3 million net increase in Charges for Services, largely due to higher projected Police Reimbursement revenues for special events. It is important to note however that this revenue has an inherent offsetting expenditure related to overtime expenditures.

- A projected shortfall of \$0.1 million in the Revenue from Other Agencies category due to anticipated decreases in High Intensity Drug Trafficking Area (HIDTA) reimbursements. This is due to a reallocation of support from HIDTA efforts to continue supporting the Southwest Border Anti-Money Laundering Alliance (SWBAMLA) operations.
- A projected \$0.1 million increase in the Fines, Forfeitures, Penalties categories for higher than anticipated negligent vehicle impound processing fees and parking citation revenues. The updated projections for these revenues are in alignment with prior year trends.

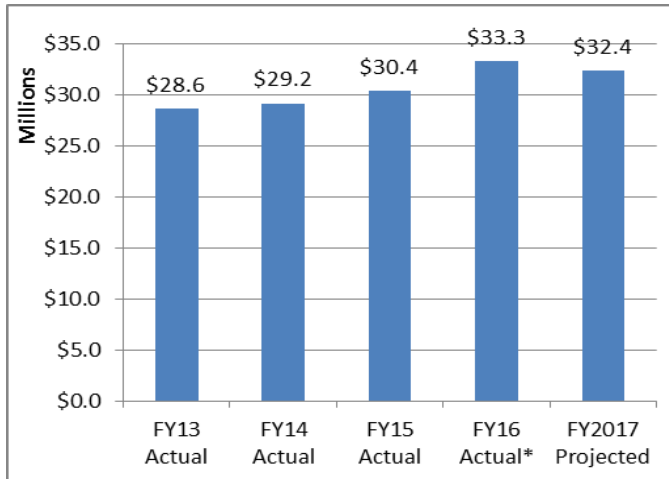
### General Fund Major Revenues

**Sales Tax** - is projected to be the City's largest revenue source, representing 22.1% of General Fund revenues in the fiscal year 2016/17 amended budget. HdL Companies, the City's Sales Tax consultant, has provided data for second quarter of calendar year 2016. They report that the change in sales tax receipts between second quarter calendar year 2015 and second quarter calendar year 2016 has decreased by 0.2% in Chula Vista. General Consumer Goods represents the largest major industry group for Sales Tax generation. In this category, the change in Sales Tax decreased by 2.2% in Chula Vista when compared to the same quarter for 2015. The largest sector contributing to the decline in Sales Tax growth was the decrease in Fuel and Service Stations by 17.0%. Other sectors experienced increases when compared to the same quarter in 2015, these included: Autos and Transportation (4.9%), Business and Industry (4.5%), Restaurants and Hotels (3.9%), and Building and Construction (3.5%).

Sales Tax revenues has been projected at the amended budget levels, however staff will continually monitor the trends in economic activity to more accurately reflect projected earnings within this category.

The following chart represents actual Sales Tax collections since fiscal year 2012/13 and the projection for fiscal year 2016/17.

### SALES TAX



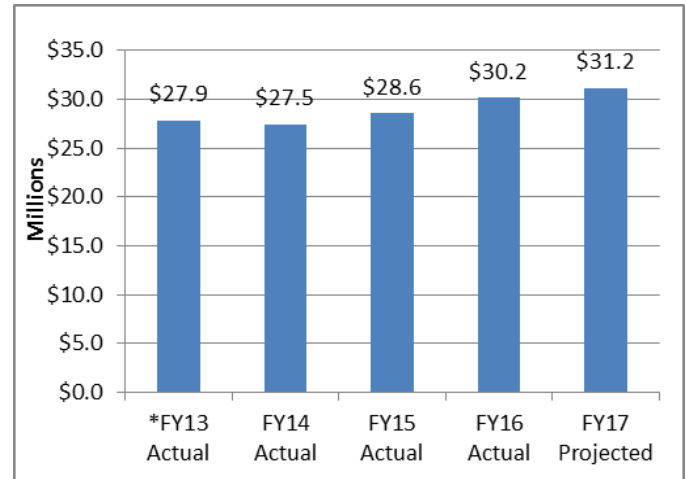
\*Note: FY2016 Sales Tax revenues include a one-time payment related to the wind down of the Triple Flip allocation.

**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 21.3% of General Fund revenues in the fiscal year 2016/17 budget.

At this time, staff has projected the City's Property Tax revenues at the budgeted levels. Although the Assessed Valuation (AV) provided by the County of San Diego assumed a higher AV growth than budgeted, other components within the Property Tax category are estimated to come in lower than anticipated. So, while individual projections within the property tax category have varied, overall the initial assumption for property tax revenue growth remains unchanged.

The following chart represents actual Property Tax revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.

### PROPERTY TAXES

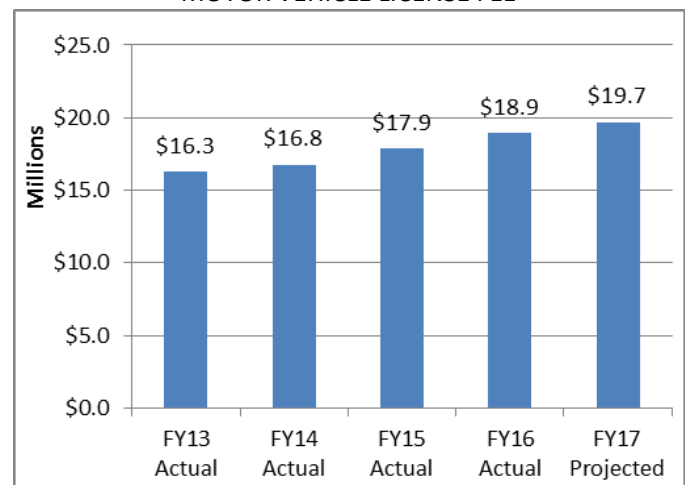


\*Note: FY2013 Property Tax revenues include a one-time payment related to the elimination of the City's Redevelopment Agency.

**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.

The projection for VLF revenues remained unchanged from the amended budget. The following chart represents actual VLF revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.

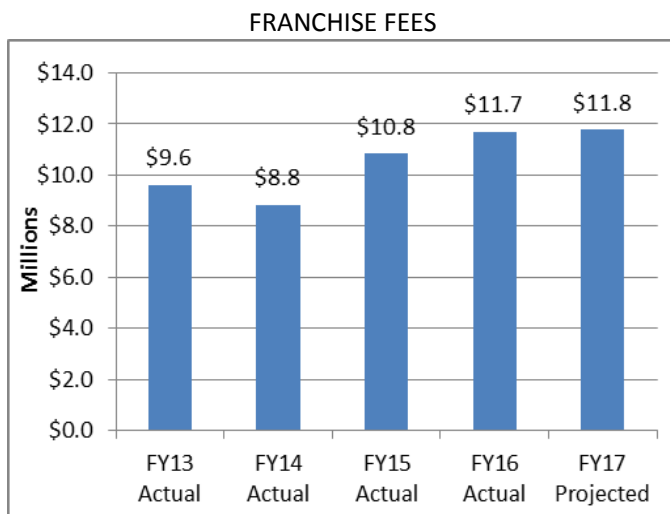
### MOTOR VEHICLE LICENSE FEE



**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.

Franchise Fee revenues are currently projected to meet the budget revenues of \$11.8 million. This is an increase over fiscal year 2015/16 actuals of approximately 1%.

The following chart represents actual franchise fee revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17. Note that fiscal year actual 2012-13 revenues reflect previously accrued Franchise Fee revenues that were realized by the City.

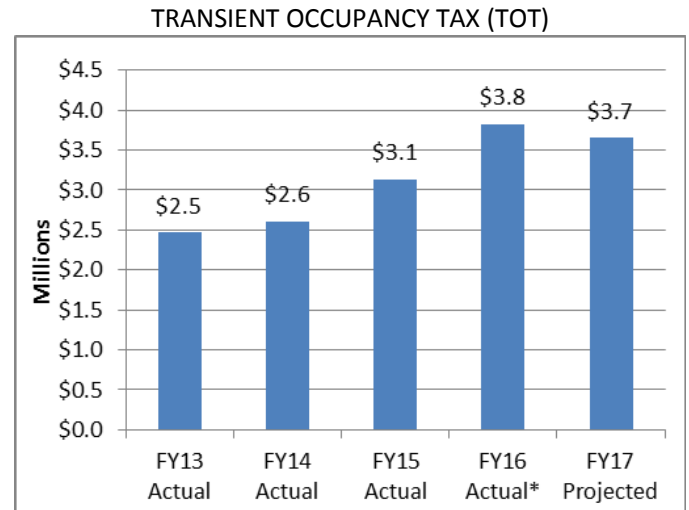


**Transient Occupancy Tax (TOT)** - The City receives 10% of hotel and motel room rates for stays less than 30 days. Projections for TOT revenues have been updated to reflect the positive trend that began in fiscal year 2012 and has subsequently continued. Fiscal year 2016/17 TOT revenues are estimated at \$3.7 million based on the previous fiscal year's growth trend. Eliminating prior year collections included in fiscal year 2015/16 actuals of \$0.3 million, TOT revenues are projected to increase by 3.0% in fiscal year 2016/17.

The potential for significant revenue growth is feasible provided additional hotels are built capturing the market

created by the growth in the eastern section of the City. Several impending new hotel developments are being proposed in the City, primarily in the Millenia and Bayfront projects.

The following chart represents actual TOT revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.



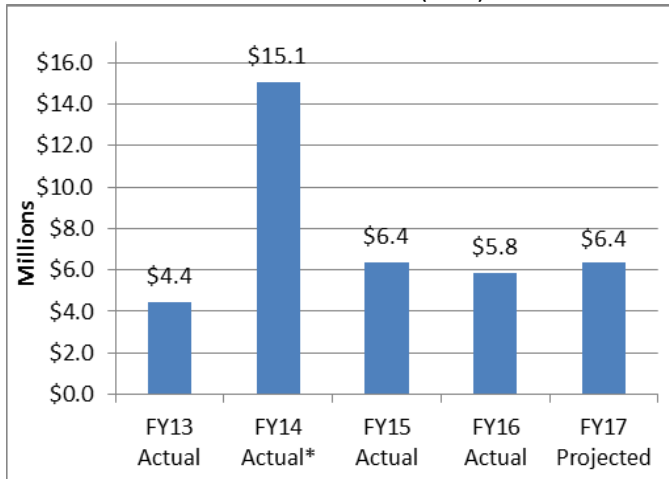
\*Note: FY2016 TOT revenues include \$0.3 million in payments for prior year collections.

**Utility Users Tax (UUT)** - by 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 4.75% 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.

UUT revenues are currently projected at the fiscal year 2016/17 budgeted levels. Fiscal year 2016/17 projected revenues include a full year of anticipated prepaid wireless UUT revenues that became effective on January 1, 2016.

The following chart reflects actual UUT revenue since fiscal year 2012/13. Fiscal year 2016/17 is projected and does not reflect actual collections.

### UTILITY USERS TAX (UUT)



\*Note: 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 \$146.5 million, Council approved mid-year appropriations of \$0.6 million, and \$5.7 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 \$152.3 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of September 30, 2016. In total, Departments have expended 34% of the General Fund budget after 25% of the fiscal year has elapsed. Expenditures are tracking ahead of the budget as of the end of the First Quarter as a result the City's decision to incur the full annual costs for retirement (CalPERS) costs in effort to generate savings as a result of an early payment incentive that was offered.

### GENERAL FUND EXPENDITURES AS OF 09/30/2016

Department	Amended Budget as of 9/30/2016	Expended as of 9/30/2016	% Expended
City Council	\$ 1,569,741	\$ 557,464	36%
Boards and Commissions	\$ 19,179	\$ 13,983	73%
City Clerk	\$ 1,115,332	\$ 313,870	28%
City Attorney	\$ 3,080,052	\$ 1,039,748	34%
Administration	\$ 2,095,030	\$ 802,330	38%
Information Technology Svcs	\$ 4,063,239	\$ 1,326,143	33%
Human Resources	\$ 2,726,895	\$ 929,630	34%
Finance	\$ 3,686,920	\$ 1,338,899	36%
Non-Departmental	\$ 12,181,629	\$ 1,181,755	10%
Animal Care Facility	\$ 2,973,062	\$ 967,714	33%
Economic Development	\$ 1,947,006	\$ 700,222	36%
Development Svcs - GF	\$ 2,688,047	\$ 960,463	36%
Police	\$ 50,442,444	\$ 19,514,001	39%
Fire	\$ 28,109,564	\$ 10,783,365	38%
Public Works	\$ 27,177,617	\$ 8,836,655	33%
Recreation	\$ 4,476,993	\$ 1,337,210	30%
Library	\$ 3,901,570	\$ 1,386,086	36%
<b>TOTAL EXPENDITURES</b>	<b>\$ 152,254,320</b>	<b>\$ 51,989,538</b>	<b>34%</b>

The following table reflects the projected expenditures for June 30, 2017. The majority of departmental expenditures are projected to be within the budget, with the exception of the Police and Fire Departments that are currently projected to exceed their amended budgets. Personnel Services are currently projected to end the fiscal year at a deficit of \$1.8 million. This is due to an estimated overage in hourly expenditures in the Police Department as well as anticipated overages in overtime expenses in both the Police and Fire departments.

Departmental expenditures for Supplies and Services are also projected to increase by \$0.6 million over the amended budget, with the Police and Fire Departments each anticipating deficits of \$0.3 million respectively. Overall, General Fund expenditures are tracking to exceed the budget by \$2.4 million as of the end of the First Quarter. All other expenditure categories are projected to be within the amended budget.

The Fire Department will be offsetting its projected deficits in Personnel Services and Supplies and Services categories by appropriating \$1.2 million in Strike Team reimbursements received for responding to out of City fire incidents. This recommendation will be brought forward



for approval in an agenda report to Council that accompanies this report.

Staff will continue to monitor General Fund expenses and look for potential cost saving measures in order to remain within budget during the current fiscal year.

**GENERAL FUND PROJECTIONS BY DEPARTMENT  
 FOR JUNE 30, 2017**

Department	Amended Budget as of 9/30/2016	Q1 Projected as of 9/30/2016	Variance
City Council	\$ 1,569,741	\$ 1,569,741	\$ -
Boards and Commissions	\$ 19,179	\$ 19,179	\$ -
City Clerk	\$ 1,115,332	\$ 1,115,332	\$ -
City Attorney	\$ 3,080,052	\$ 3,080,052	\$ -
Administration	\$ 2,095,030	\$ 2,095,030	\$ -
Information Technology Svcs	\$ 4,063,239	\$ 4,063,239	\$ -
Human Resources	\$ 2,726,895	\$ 2,726,895	\$ -
Finance	\$ 3,686,920	\$ 3,686,920	\$ -
Non-Departmental	\$ 12,181,629	\$ 12,181,629	\$ -
Animal Care Facility	\$ 2,973,062	\$ 2,973,062	\$ -
Economic Development	\$ 1,947,006	\$ 1,947,006	\$ -
Development Svcs - GF	\$ 2,688,047	\$ 2,688,047	\$ -
Police	\$ 50,442,444	\$ 51,606,292	\$ (1,163,848)
Fire	\$ 28,109,564	\$ 29,306,039	\$ (1,196,475)
Public Works	\$ 27,177,617	\$ 27,177,617	\$ -
Recreation	\$ 4,476,993	\$ 4,476,993	\$ -
Library	\$ 3,901,570	\$ 3,901,570	\$ -
<b>TOTAL EXPENDITURES</b>	<b>\$ 152,254,320</b>	<b>\$ 154,614,643</b>	<b>\$ (2,360,323)</b>

**Budget Transfers**

The following table reflects the administrative budget transfers that have been approved through the third 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
<b>Human Resources</b>			
Jul-16	Transfer for copier lease	\$352	Supplies and Services to Capital
<b>Animal Care Facility</b>			
Sep-16	Transfer to cover contract expenditures	\$15,000	Personnel Services to Supplies and Services

**Mid-Year Budget Amendments**

Mid-year expenditure appropriations approved through September 30, 2016 totaled \$55,212. The City Council approved changes to budgeted revenues of \$73,788. Combined, these changes result in a positive net impact of \$18,576.

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
7/1/2016	Principal Management Analyst and Senior Civil Engineer Reclassification (Public Works)	\$ 32,212	\$ 32,212	\$ -
7/1/2016	Senior Economic Development Specialist Classification review (Economic Development)	\$ -	\$ -	\$ -
8/2/2016	Addition of 1.00 Latent Print Examiner through County of San Diego Cal-ID Program (Police)	\$ 23,000	\$ 23,000	\$ -
8/16/2016	Budget adjustments related to the new ERP Software with Tyler Technologies (Various)	\$ -	\$ -	\$ -
9/13/2016	Addition of Administrative Fees for Fiscal Agent Positions (Police)	\$ 18,576	\$ -	\$ 18,576
<b>Total Appropriations to Date</b>		<b>\$ 73,788</b>	<b>\$ 55,212</b>	<b>\$ 18,576</b>