

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2017 through December 31, 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 Forecast¹ - In the special Election Forecast December report, UCLA Anderson Forecast Senior Economist David Schulman examines the impact of "Trumponomics" by evaluating the impact of President elect Trump's economic policy proposals are likely to have on the nation's economy. Shulman categorizes Trump's bundle of economic proposals that include tax reductions, increased spending for defense and infrastructure, easing of regulations and trade policy changes as "a massive fiscal stimulus on an economy at or very close to full employment." Shulman further states that these proposals will likely drive up the annual deficit to \$1.0 trillion and have an adverse effect on the housing market due to an increase in interest rates resulting from projected increased inflation. Overall Shulman predicts GDP growth to accelerate from its recent 2% growth path to 3% for about four consecutive quarters, then will slide back to 2%. Employment will continue to grow on the order of 140,000 jobs per month in 2017 and 120,000 per month in 2018.

The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg predicts that the State will benefit from President elect's Trump's economic proposals that call for increased defense spending as he states that "The increase in defense spending will be disproportionately directed to California, as sophisticated airplanes, weaponry, missiles and ships require the technology that is produced here," "Moreover, there are few places to build the proposed 150 new warships, and San Diego is one of them. Regionally, we expect a positive impact in the Bay Area and in coastal Southern California." Overall, the forecast for 2017 and 2018 total employment growth is 1.8% and 1.3%, respectively. Payrolls will grow at about the same rate over the forecast horizon. Real

personal income growth is forecast to be 3.6% and 3.8% in 2017 and 2018, respectively. Home building will continue in California at about 120,000 units per year through the forecast horizon.

The San Diego Forecast³ - The USD Burnham-Moore's Center for Real Estate's Index of Leading Economic Indicators County remained unchanged for October remaining flat for the second consecutive month. The index exhibited more positive components than negative ones, with consumer confidence being up moderately as the best performing component. Residential units authorized by building permits, initial claims for unemployment insurance, and the outlook for the national economy were up only slightly. These were offset by moderate declines in local stock prices and help wanted advertising.

Overall, the forecast for 2017 continues to be for positive job growth locally in 2017, but not enough to push the local unemployment rate much lower than the current level. On the other hand, consumer confidence continues to rebound and was up for the fourth consecutive month in October. Low gas prices, a good labor market, and wages finally increasing are all possible reasons for the improvement in consumer confidence providing important momentum heading into the new year.

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



¹ Source: UCLA Anderson Forecast, December 2016

² Source: UCLA Anderson Forecast, December 2016

³ Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, November 30, 2016; retrieved from URL: <http://home.sandiego.edu/~agin/usdlej/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 (audited)	\$ 17.87	\$ 17.87
Revenues & Transfers In ¹	\$ 151.28	\$ 151.39
Expenditures & Transfers Out ²	\$ (151.25)	\$ (152.18)
Net Pending Appropriations ³	\$ -	\$ (0.24)
Projected Surplus/Deficit	\$ 0.03	\$ (1.03)
Projected Fund Balance for June 30, 2017	\$ 17.90	\$ 16.84
Percentage of Operating Budget	11.8%	11.1%

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.
3. The table includes a staff recommended appropriation of \$0.24 million for consulting services in regard to construction defects at the John Lippitt Public Works Center.

The City's financial outlook improved slightly but remained tentative through the end of the second quarter. This slight improvement was due to mixed performance in the projection for both City expenditures and revenues that varied, exhibiting offsetting increases and decreases that resulted in small net improvement from the first quarter report. Although revenues are still projected to increase modestly from the amended budget level, projections for two of the City's major revenue categories that include

property taxes and other local taxes were revised as follows:

The property tax revenue projection has been revised upward by \$0.5 million over the first quarter projection based on an improvement in assessed valuations that reflected an increase of 5.7%. This increase is slightly offset by other components within the Property Tax category that are estimated to come in lower than anticipated.

The projection for the other local taxes category was revised downward by \$0.8 million from the first quarter projection due to lower than anticipated sales taxes and utility user taxes. The sales tax revenue projection was revised based on the most recent report from the City's sales tax consultant that indicated a decrease in sales tax revenue based on a year over year comparison for the third quarter for 2016. The projection for utility users taxes was revised based on the downward trend of remittances from the City's utility providers over the prior fiscal year. Overall, General Fund Revenues are projected to exceed the amended budget by \$0.1 million. A discussion of each of the City's major discretionary revenues is included later in this report.

Similar to the first quarter, expenditures continue to be projected to exceed the amended budget. Major factors affecting the projected overages in expenditures are the personnel services and supplies and services expenses within the Police, Fire, Public Works and Library departments.

The major factor affecting the projected overages in expenditures are the personnel services and supplies and services expenses within the Police Department. Overall, the personnel services category is projected to exceed the General Fund budget by \$0.9 million. The Police department is projecting a deficit of \$1.6 million in personnel services. As reported in the first quarter, the projected deficit is due to higher than budgeted overtime costs. Staff is continuing its efforts to isolate the specific sources causing this deficit in an effort to mitigate the growth of this deficit. The Department is currently looking into the implementation of transcription software to lower overtime costs related to report writing. All other departments combined are projected at \$0.7 million below budget in personnel services.

Deficits in the Supplies and Services category are projected for the Police and Public Works departments. As reported in the first quarter, the projected deficit in Police department is due to ammunition, uniforms, training, and contractual costs. The projected deficit in the Public Works department is attributed to unanticipated expenses related to numerous repairs to City facilities and infrastructure.

All other expenditure categories including Utilities, Other Expenses, Transfers Out and Capital expenditures are projected to be within budget as of the second quarter.

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 \$0.1 million above the current amended budget as detailed in the following table:

Category	Amended Budget as of 12/31/2016	FY2017 Q2 Projected	Variance
Property Taxes	\$ 31,174,827	\$ 31,705,086	\$ 530,259
Sales Tax	\$ 35,550,442	\$ 35,114,039	\$ (436,403)
Motor Vehicle License	\$ 19,692,436	\$ 19,965,585	\$ 273,149
Other Revenue	\$ 13,560,450	\$ 13,653,114	\$ 92,664
Transfers In	\$ 11,949,135	\$ 11,894,052	\$ (55,083)
Franchise Fees	\$ 11,795,951	\$ 11,795,951	\$ -
Charges for Services	\$ 7,076,334	\$ 7,448,485	\$ 372,151
Revenue from Other Agencies	\$ 2,090,808	\$ 2,020,412	\$ (70,396)
Utility Users Tax	\$ 6,379,964	\$ 5,860,328	\$ (519,636)
Transient Occupancy Taxes	\$ 3,654,779	\$ 3,676,370	\$ 21,591
Use of Money & Property	\$ 2,728,876	\$ 2,422,835	\$ (306,041)
Other Local Taxes	\$ 2,256,753	\$ 2,391,626	\$ 134,873
License and Permits	\$ 1,321,085	\$ 1,272,346	\$ (48,739)
Fines, Forfeitures, Penalties	\$ 1,020,700	\$ 1,145,546	\$ 124,846
Real Property Transfer Tax	\$ 1,023,661	\$ 1,023,661	\$ -
TOTAL REVENUES	\$ 151,276,201	\$ 151,389,436	\$ 113,235

The major non-discretionary revenue variances are as follows:

- A projected \$0.4 million net increase in Charges for Services, largely due to higher projected Police Reimbursement revenues for jail services, special events and fire construction fees. It is important to note however that the Police reimbursement

revenues have an inherent offsetting expenditure related to overtime expenditures.

- A projected \$0.3 million decrease in the Use of Money and Property due to lower lease and rental revenue from City buildings.
- 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, and Penalties category 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.

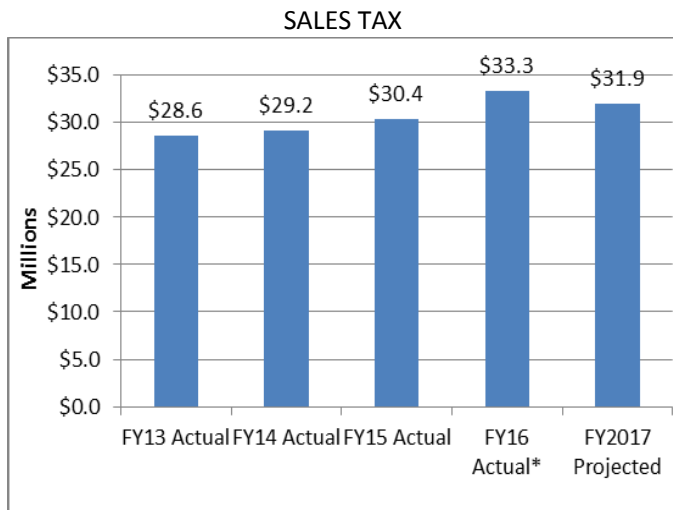
General Fund Major Revenues

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 third quarter of calendar year 2016. They report that the change in sales tax receipts between third quarter calendar year 2015 and the third quarter calendar year 2016 has decreased by 1.8% 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 2.4% 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 23.0%. These decreases were offset somewhat by other sectors that experienced increases when compared to the same quarter in 2015. These included: Autos and Transportation (5.1%), Restaurants and Hotels (5.8%), and Building and Construction (1.5%).

As a result of the most recent trend, the Sales Tax revenue projection has been revised downward by \$0.4 million from the first quarter projection that was based on the amended budget level. 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.



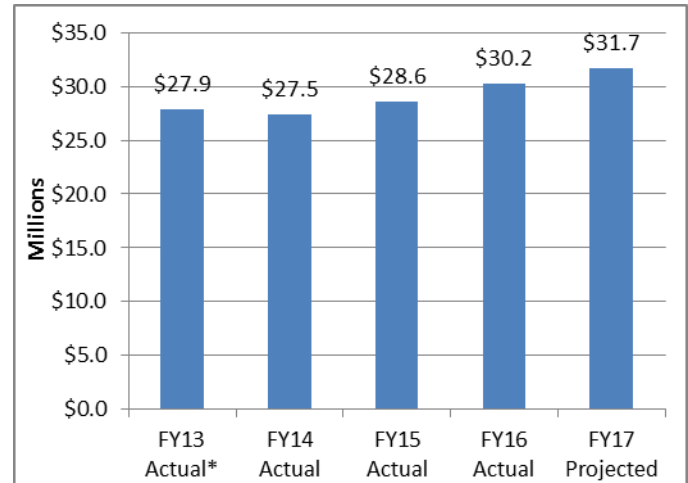
*Note: FY2016 Sales Tax revenues includes a \$1.9 million one-time payment related to the wind down of the Triple Flip allocation.

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.

The property tax revenue projection has been revised upward by \$0.5 million over the first quarter projection based on an improvement in assessed valuations that reflected an increase of 5.7%. This increase is slightly offset by other components within the Property Tax category that are estimated to come in lower than anticipated. So, while individual projections within the property tax category have varied, the second quarter projection reflects an overall improvement in property tax revenues.

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

PROPERTY TAXES

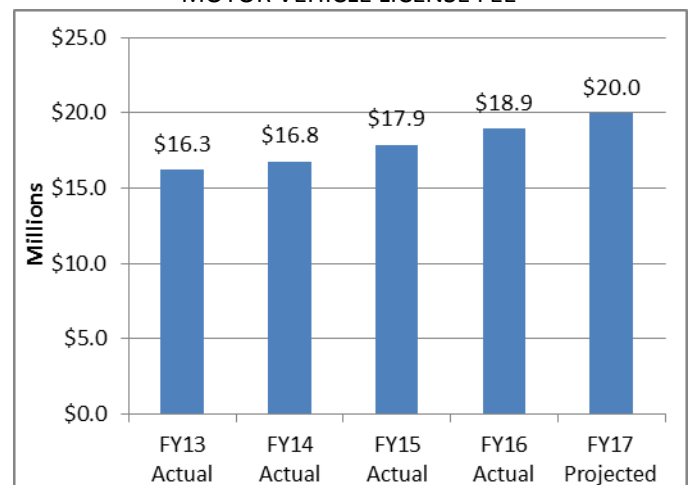


*Note: FY2013 Property Tax revenues include a one-time payment related to the elimination of the City's Redevelopment Agency.

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 has been revised upward \$0.3 million to \$20.0 million in the second quarter reflecting the improvement in assessed valuations. The following chart represents actual VLF revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.

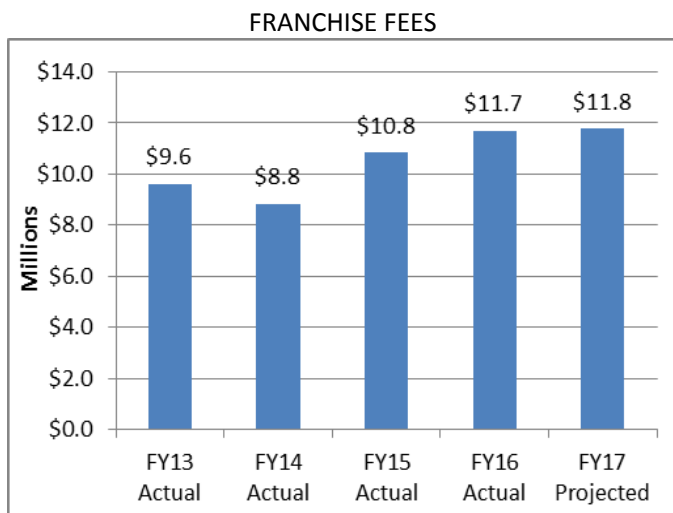
MOTOR VEHICLE LICENSE FEE



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.

There is no change in the projection for Franchise Fee revenues in the 2nd Quarter. Franchise Fee revenues are projected at the budgeted level \$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.

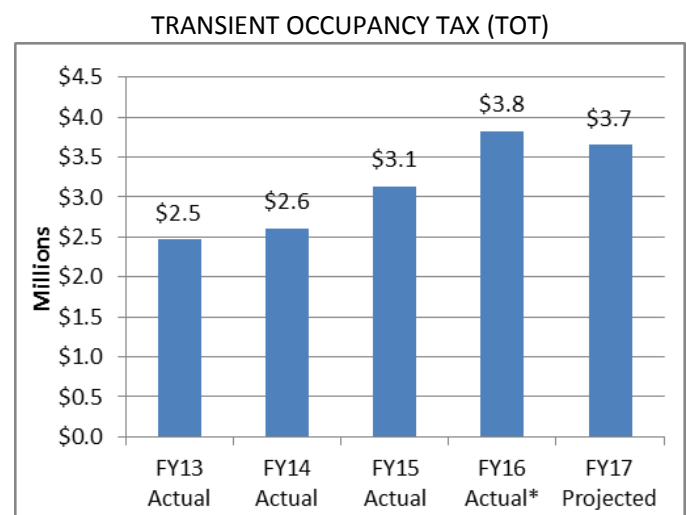


Transient Occupancy Tax (TOT) - The City receives 10% of hotel and motel room rates for stays less than 30 days. TOT revenues have reflected a positive trend that began in fiscal year 2012 and has subsequently continued.

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.

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 3.9% in fiscal year 2016/17. TOT revenues are projected to increase slightly in the 2nd quarter, estimated to come in higher than the budgeted level by \$0.02 million.

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



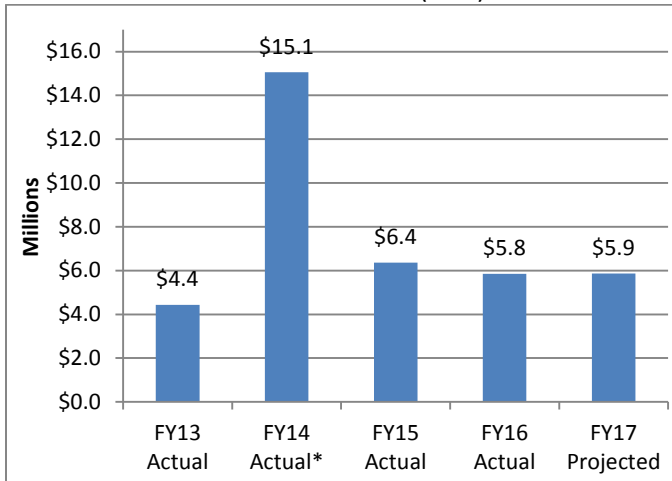
*Note: FY2016 TOT revenues include \$0.3 million in payments for prior year collections.

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 have been revised downward by \$0.5 million reflecting the trend of remittances from the City's utility providers over the current fiscal year. 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 \$4.8 million, and \$5.7 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 \$157.0 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2016. In total, Departments have expended \$79.4 million or 51% of the General Fund budget after 50% of the fiscal year has elapsed. Overall, expenditures are tracking slightly ahead of budget as of the end of the second quarter.

GENERAL FUND EXPENDITURES AS OF 12/31/2016

Department	Amended Budget as of 12/31/2016	Expended as of 12/31/2016	Variance	% Expended
City Council	\$ 1,568,272	\$ 850,795	\$ 717,477	54%
Boards and Commissions	\$ 19,179	\$ 17,454	\$ 1,725	91%
City Clerk	\$ 1,115,332	\$ 576,193	\$ 539,139	52%
City Attorney	\$ 3,080,051	\$ 1,610,535	\$ 1,469,516	52%
Administration	\$ 2,093,362	\$ 1,185,234	\$ 908,128	57%
Information Technology Svcs	\$ 4,063,238	\$ 2,007,174	\$ 2,056,064	49%
Human Resources	\$ 2,726,895	\$ 1,427,877	\$ 1,299,018	52%
Finance	\$ 3,686,918	\$ 2,052,882	\$ 1,634,036	56%
Non-Departmental	\$ 15,743,554	\$ 1,706,214	\$ 14,037,340	11%
Animal Care Facility	\$ 2,973,062	\$ 1,544,665	\$ 1,428,397	52%
Economic Development	\$ 1,947,006	\$ 1,050,127	\$ 896,879	54%
Development Svcs - GF	\$ 2,688,047	\$ 1,397,609	\$ 1,290,438	52%
Police	\$ 50,441,737	\$ 29,044,644	\$ 21,397,093	58%
Fire	\$ 29,304,124	\$ 16,174,975	\$ 13,129,149	55%
Public Works	\$ 27,150,269	\$ 14,365,088	\$ 12,785,181	53%
Recreation	\$ 4,476,996	\$ 2,199,871	\$ 2,277,125	49%
Library	\$ 3,908,421	\$ 2,168,932	\$ 1,739,489	55%
TOTAL EXPENDITURES	\$ 156,986,462	\$ 79,380,269	\$ 77,606,193	51%

The following table reflects the projected expenditures for June 30, 2017. At the end of the second quarter, there are four departments that are projecting expenditure deficits. These include Police, Fire, Public Works and Library. The projected deficits for these departments are within the Personnel Services and Supplies and Services expenditure categories. The projected personnel services deficits in the Police (\$1.6) million and Fire department (\$0.05) million are attributed to higher overtime costs. Police is continuing its efforts to isolate the specific sources causing this deficit in an effort to mitigate the growth of this deficit. The projected deficit in the Fire Department is smaller and is projected to be contained within the department's budget. A projected \$0.1 million deficit in Personnel Services expenditures is projected for the Library due to increased hourly wage expenses that are required to maintain current operation levels. Overall, the deficits in these departments are projected to be partially offset with savings in other departments that are either under-filling or maintaining vacant positions.

Deficits within the Supplies and Services category are also projected for the Police and Public Works departments. The Police department is projected to exceed its supplies and services budget by \$0.3 million. Similar to what was reported in the first quarter, the cause for the deficit is due to ammunition, uniforms, training, and contractual costs. To mitigate this deficit, the Department is proactively seeking cost-saving measures and continuously improving processes with operational efficiencies. The



Public Works department is projected to exceed its supplies and services budget by \$0.2 million. This is due to unanticipated expenses related to numerous repairs to City facilities and infrastructure. The department will be seeking to make transfers from other expenditure categories with projected savings and to appropriate revenues to mitigate this deficit.

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

Department	Amended Budget as of 12/31/2016	FY2017 Q2 Projected	Variance
City Council	\$ 1,568,272	\$ 1,568,272	\$ -
Boards and Commissions	\$ 19,179	\$ 19,179	\$ -
City Clerk	\$ 1,115,332	\$ 1,012,855	\$ 102,477
City Attorney	\$ 3,080,051	\$ 2,957,710	\$ 122,342
Administration	\$ 2,093,362	\$ 2,066,198	\$ 27,165
Information Technology Svcs	\$ 4,063,238	\$ 4,008,401	\$ 54,837
Human Resources	\$ 2,726,895	\$ 2,664,682	\$ 62,213
Finance	\$ 3,686,918	\$ 3,579,716	\$ 107,202
Non-Departmental	\$ 15,743,554	\$ 15,416,045	\$ 327,509
Animal Care Facility	\$ 2,973,062	\$ 2,947,973	\$ 25,089
Economic Development	\$ 1,947,006	\$ 1,867,548	\$ 79,458
Development Svcs - GF	\$ 2,688,047	\$ 2,482,470	\$ 205,577
Police	\$ 50,441,737	\$ 52,194,587	\$ (1,752,850)
Fire	\$ 29,304,124	\$ 29,359,356	\$ (55,233)
Public Works	\$ 27,150,269	\$ 27,329,687	\$ (179,419)
Recreation	\$ 4,476,996	\$ 4,440,953	\$ 36,043
Library	\$ 3,908,421	\$ 3,999,666	\$ (91,245)
TOTAL EXPENDITURES	\$ 156,986,462	\$ 157,915,298	\$ (928,836)

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.

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
Human Resources			
Jul-16	Transfer for copier lease	\$352	Supplies and Services to Capital
Animal Care Facility			
Sep-16	Transfer to cover contract expenditures	\$15,000	Personnel Services to Supplies and Services
City Clerk			
Nov-16	Transfer to cover various supplies and services	\$8,600	Capital to Supplies and Services
Administration			
Dec-16	Transfer for Communications Intern	\$15,000	Supplies and Services to Personnel Services

Mid-Year Budget Amendments

Mid-year expenditure appropriations approved through December 31, totaled \$4,787,358 million. The City Council approved changes to budgeted revenues of \$4,814,871. Combined, these changes result in a positive budgeted net impact of \$27,513.

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
7/1/2016	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
11/1/2016	Addition of Administrative Fees for Fiscal Agent Positions (Police)	\$ 5,094	\$ -	\$ 5,094
11/15/2016	1st Quarter Budget Adjustments (Various)	\$ 1,535,989	\$ 1,532,854	\$ 3,135
11/15/2016	Transfer from Personnel Services to Supplies and Services for Veterinarian Svcs. (\$35,000)	\$ -	\$ -	\$ -
11/15/2016	Reduction of Dispatch Supervisor (Police)	\$ -	\$ (46,661)	\$ 46,661
11/15/2016	Addition of Dispatcher (Police)	\$ -	\$ 40,473	\$ (40,473)
11/15/2016	Reduction of Sr. Mgmt. Analyst (Police)	0	\$ (54,092)	\$ 54,092
11/15/2016	Addition of Supervising Public Safety Analyst (Police)	0	\$ 59,572	\$ (59,572)
12/6/2016	FY 17 Measure P Revenues	\$ 3,200,000	\$ 3,200,000	\$ -
Total Appropriations to Date		\$ 4,814,871	\$ 4,787,358	\$ 27,513