

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2016 through September 30, 2015 and projecting out to June 30, 2016. 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 2015 report, UCLA Anderson Forecast Director Edward Leamer provides historical perspective regarding the current expansion that is now in its twenty-fifth quarter. Leamer says the expansion seems destined to continue for at least a couple more years and probably more due to other key factors: jobs, housing and cars. The expansion is projected to continue despite the anticipated interest rate increase the Federal Reserve Board. The forecast for GDP growth is in the 2% to 3% range, better in 2016 than the year after. The forecast anticipates an improving labor market, a declining unemployment rate and a rising employment to population ratio.

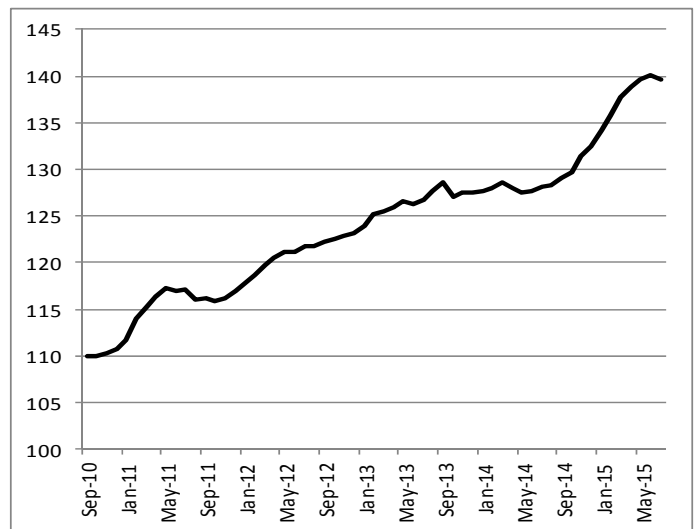
The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg examines the labor market. He estimates total employment growth at 2.7% in 2015, 2.2% in 2016 and 1.4% in 2017. Real personal income growth is estimated to be 4.6% in 2015 and forecast to be 4.5% and 4.2% in 2016 and 2017, respectively. At the same time, the unemployment rate should drop below 6.0% through the balance of 2015. Unemployment will fall throughout the next year and will average 5.2% -- unchanged from the June forecast. In 2017, Nickelsburg expects the unemployment rate to be approximately 4.8%, same as in the U.S. Nickelsburg also estimates that that home prices in California will become increasingly less affordable over the next two years, as the amount of building will not meet new demand. This forecast is somewhat in contrast to the overall national housing outlook that is projected to garner strength as it returns to previous average growth levels. The national improvement in the real estate market is anticipated to be driven by housing starts that are projected to modestly increase over the forecast period.

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County decreased 0.4 percent in July 2015. Five of the six components in the Index were down, led by big drops in initial claims for unemployment insurance and help wanted advertising. Down more moderately was consumer confidence and the outlook for the national economy.

July's decrease broke a string of thirteen consecutive monthly increases in the USD Index. Although the increase in the Index had slowed in recent months, the decline was unexpected as a couple of recently strong components (building permits and the outlook for the national economy) turned negative. Despite the drop and despite concern that five of the six components were negative, the outlook for positive growth in the local economy remains unchanged. Changes in the labor market provided the utmost concern as initial claims for unemployment insurance jumped above the 16,000 mark for the first time since last August, while help wanted advertising hit its lowest level since October of last year. This impact has not been reflected yet in the local labor market.

The upcoming months will be closely watched as Economists usually look for three consecutive changes in a leading index as a signal of a turning point in an economy.

**San Diego Index of Leading Economic Indicators
San Diego County, 2010 - 2015**



¹Source: UCLA Anderson Forecast, September 2015

²Source: UCLA Anderson Forecast, September 2015

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, 2015 as well as the projected General Fund reserves for June 30, 2016.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2015 (unaudited)	\$16.03	\$16.03
Revenues & Transfers In ¹	\$139.88	\$140.73
Expenditures & Transfers Out ²	(\$139.88)	(\$139.88)
Pending Appropriations ³	-	(\$0.58)
Projected Surplus/Deficit	\$0.01	\$0.27
Projected Fund Balance for June 30, 2016	\$16.03	\$16.30
Percentage of Operating Budget	11.5%	11.6%

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund. The budgeted surplus reflected in the Amended Budget column is a result of mid-year Council approved budget amendments that have resulted a minor surplus of revenues over expenditures.
2. The Amended Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$5.3 million that were carried forward into the fiscal year 2015/16 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2015 and are therefore not included in the above table.
3. Pending appropriations reflect the personnel cost increases related to the negotiated wage settlement with the Chula Vista Mid-Managers and Professionals Association, Western Council of Engineers, and various unrepresented employees. The wage settlement agreement with the Chula Vista Employees Association is also included in this projection though Council will consider this action as part of a different action on today's agenda. Accordingly, these costs are reflected in the amounts for pending appropriations. While these appropriations are outside of the reporting period, staff is including them in the report to better reflect projected expenditures for fiscal year 2016.

The City's financial outlook appears stable through the end of the first quarter. Revenues are projected to increase modestly from the amended budget level based on updated assumptions based on fiscal year 2015 actuals and continuing positive trends in the first quarter. There are no projected variances in expenditures to report at this time. 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 (\$0.27 million).

Overall, General Fund revenues are projected to increase by \$0.85 million above the current amended budget. This increase is due to improved Property Tax, Motor Vehicle License Fee, Transient Occupancy Tax, Real Property Transfer Tax and Use of Money and Property revenues that are projected to increase by a combined \$1.0 million over the current budgeted level. The projected increases for these revenues are based on revised assumptions that have improved since the adoption of the budget and a review of previous fiscal year actuals for these revenues. The projected increase in these revenues is partially offset by a projected decrease of \$0.1 million in Other Revenue.

There are no variances to report for expenditures projected as of the end of the first quarter. Departmental expenditures are tracking within budgeted levels. Although departmental expenditures projected within budget levels, budgeted salary savings levels are not projected to be achieved based on the current trend. This is primarily due to lower than anticipated employee attrition rates. Salary savings are currently budgeted at \$2.0 million in the General Fund, which reflects a 2% vacancy rate. Staff will continue to monitor salary savings levels and look for other potential cost saving measures in order to remain within budget.

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 \$0.85 million. Variances in revenues reflect the following changes:

- An increase of \$0.3 million in Motor Vehicle License Fee revenues resulting from increased assessed values for property.
- An increase of \$0.3 million in Transient Occupancy Taxes and \$0.2 million in Real Property Transfer Tax revenue based on continued improved collection trends from the previous fiscal year.
- A net \$0.2 million projected increase in Property Tax revenues based on better than anticipated growth rate of 5.6% in assessed property valuations.
- A \$0.1 million projected decrease in Other Revenues from prior year revenues that are no longer anticipated to be received.

General Fund Revenues

Category	Amended Budget as of 9/30/15	Q1 Projected 6/30/15	Variance
Property Taxes	\$ 29,896,925	\$ 30,052,207	\$ 155,282
Sales Tax	\$ 25,033,204	\$ 25,033,204	\$ -
Sales Tax In Lieu	\$ 5,981,593	\$ 5,981,593	\$ -
Motor Vehicle License	\$ 18,597,204	\$ 18,887,001	\$ 289,797
Other Revenue	\$ 10,768,807	\$ 10,664,733	\$ (104,074)
Transfers In	\$ 10,022,271	\$ 10,022,271	\$ -
Franchise	\$ 11,426,283	\$ 11,426,283	\$ -
Charges for Services	\$ 7,722,775	\$ 7,722,775	\$ -
Revenue from Other Agencies	\$ 2,795,845	\$ 2,795,845	\$ -
Utility Users Tax	\$ 6,500,000	\$ 6,500,000	\$ -
Transient Occupancy Taxes	\$ 2,890,853	\$ 3,168,215	\$ 277,362
Use of Money & Property	\$ 2,726,806	\$ 2,763,259	\$ 36,453
Other Local Taxes	\$ 2,245,437	\$ 2,245,437	\$ -
Licenses and Permits	\$ 1,309,447	\$ 1,309,447	\$ -
Fines, Forfeitures, Penalties	\$ 1,133,800	\$ 1,133,800	\$ -
Real Property Transfer Tax	\$ 832,822	\$ 1,023,661	\$ 190,839
Total General Fund	\$139,884,072	\$140,729,731	\$ 845,659

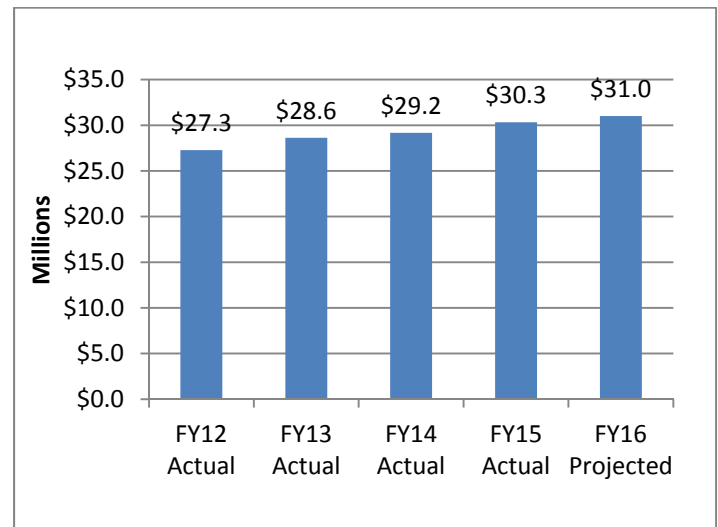
Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 22.2% of General Fund revenues in the fiscal year 2015/16 amended budget. HdL Companies, the City's Sales Tax consultant, recently provided data

for the second quarter of calendar year 2015. They report that the change in sales tax receipts between second quarter calendar year 2014 and second quarter calendar year 2015 increased by 3.9% in Chula Vista. General Consumer Goods represents the largest major industry group for Sales Tax generation. In this category, the change in Sales Tax decreased by 1.0% in Chula Vista when compared to the same quarter for 2014. This decrease was offset by gains in other sales tax producing categories that included Business and Industry 21%, Restaurants and Hotels 10% and Autos and Transportation 10%.

The fiscal year 2015/16 budget assumed a 4% increase in Sales Tax revenues. Sales Tax revenues are projected to be at the budgeted level as of the first quarter.

The following chart represents actual sales tax collections since fiscal year 2011/12 and the projection for fiscal year 2015/16.

Sales Tax and Sales Tax in Lieu



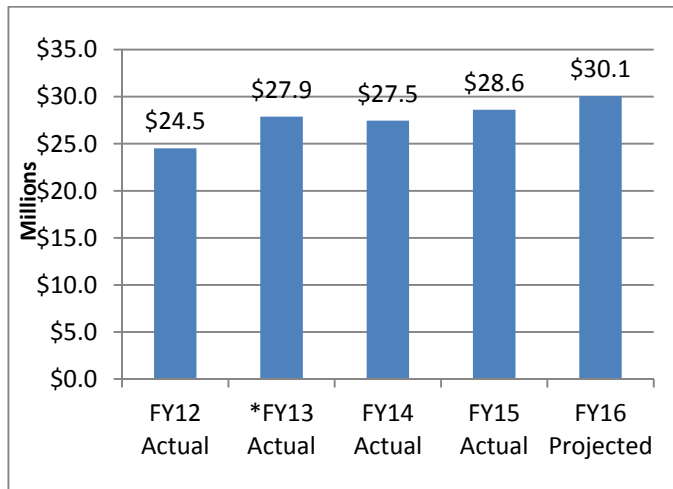
Property Taxes - Property Taxes - The City of Chula Vista receives property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 21.4% of General Fund revenues in the fiscal year 2015/16 budget.

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 5.6% growth in AV. This new growth rate was then applied to the fiscal year 2014/15 actuals

received for the Current Secured portion of property taxes, less the portion received as an RDA pass-through. This new growth resulted in approximately \$0.3 million in additional Current Secured Property Tax. However, lower than anticipated fiscal year 2014/15 actual revenues in other property tax types, State Secured Unitary and Delinquent Taxes resulted in a lower projection for these two property tax categories by \$0.1 million.

Taking into account the above mentioned changes, projected Property Tax revenues have been increased by \$0.2 million when compared to the fiscal year 2015/16 adopted budget and \$1.4 million over fiscal year 2014/15 actuals.

Property Tax

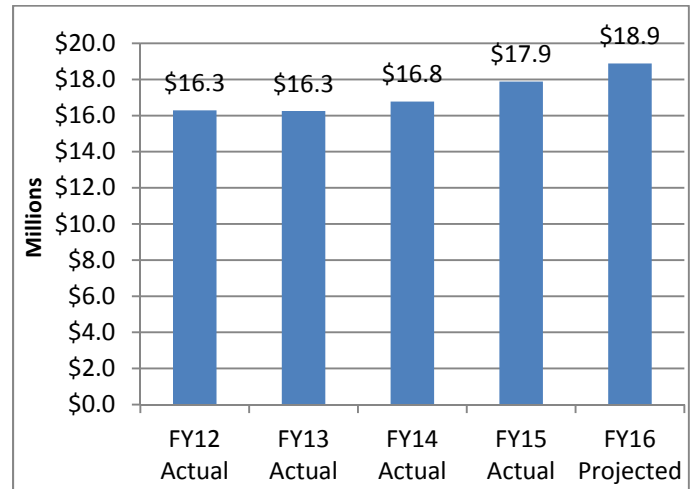


Motor Vehicle License Fee (VLF) – Since the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Beginning in 2005/06, the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross assessed valuation. 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 2015-16. As discussed above, assessed property values (AV) for the City of Chula Vista are projected to grow by 5.6% as opposed to the 4% reflected in the adopted budget. The projection for VLF revenues has been revised to reflect this change.

The following chart represents actual VLF revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16.

Motor Vehicle License Fee

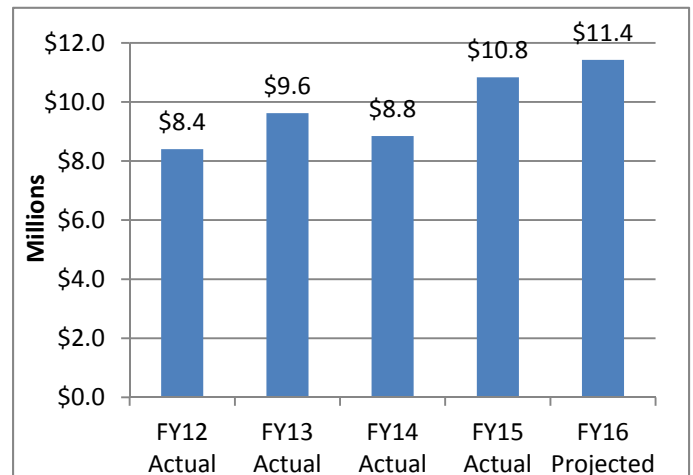


Franchise Fees - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E collects the franchise fee from Chula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

Franchise Fee revenues are projected to be realized at the budgeted level as of the end of first quarter.

The following chart represents actual franchise fee revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16. Fiscal year actual 2012-13 revenues reflect previously accrued Franchise Fee revenues that were realized by the City.

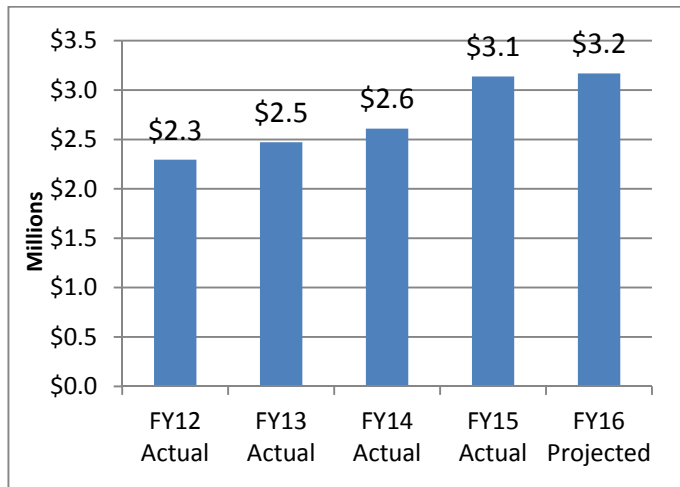
Franchise Fees



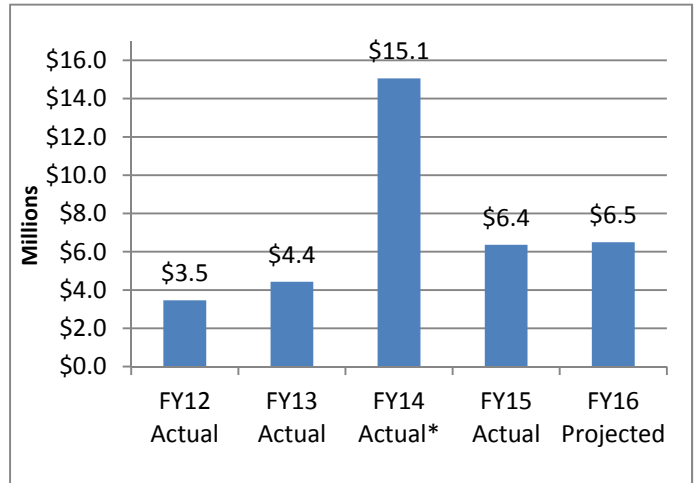
Transient Occupancy Tax (TOT) - The City receives 10% of hotel and motel room rates for stays less than 30 days. Projections for TOT revenues have been updated to reflect the positive trend that began in fiscal year 2012 and has continued. Based on better than anticipated revenues in fiscal year 2015, the projection for fiscal year 2015/16 has been increased by \$0.3 million 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 2011/12 and the projection for fiscal year 2015/16.

Transient Occupancy Tax (TOT)



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.

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 2011/12. Fiscal year 2015/16 is projected and does not reflect actual collections.

Expenditures

The General Fund's amended budget reflects the Council adopted budget of \$139.8 million, Council approved mid-year appropriations of \$0.1 million, and \$5.3 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 \$145.2 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of September 30, 2015. In total, Departments have expended 21% of the General Fund budget after 25% of the fiscal year has elapsed.

General Fund Expenditures as of 9/30/2015

Department	Amended Budget as of 9/30/15	Expended as of 9/30/15	% Expended
City Council	\$ 1,488,642	\$ 311,168	21%
Boards & Commissions	\$ 77,520	\$ 5,209	7%
City Clerk	\$ 941,785	\$ 165,325	18%
City Attorney	\$ 3,044,005	\$ 517,458	17%
Administration	\$ 3,374,999	\$ 637,861	19%
Information Tech Svcs	\$ 3,587,516	\$ 866,166	24%
Human Resources	\$ 2,551,814	\$ 494,337	19%
Finance	\$ 3,721,803	\$ 728,233	20%
Non-Departmental	\$ 10,059,499	\$ 1,295,265	13%
General Services	\$ 2,942,623	\$ 596,606	20%
Dev Services (GF)	\$ 2,476,400	\$ 548,595	22%
Police	\$ 49,568,159	\$ 10,596,896	21%
Fire	\$ 26,001,801	\$ 6,447,914	25%
Public Works	\$ 27,263,895	\$ 5,208,141	19%
Recreation	\$ 4,319,287	\$ 828,477	19%
Library	\$ 3,784,257	\$ 840,165	22%
Total Expenditures	\$ 145,204,005	\$ 30,087,816	21%

The following table reflects the projected expenditures for June 30, 2016. As noted on the table, there are no variances to report for expenditures projected as of the end of the first quarter. Departmental expenditures are tracking within budgeted levels. Although departmental expenditures projected within budget levels, budgeted salary savings levels are not projected to be achieved based on the current trend. This is primarily due lower than anticipated employee attrition rates. Salary savings are currently budgeted at \$2.0 million in the Non-Departmental budget.

In an effort to mitigate this short-fall, staff is recommending to decrease the salary savings level

and offset it with savings from the voluntary work furlough program and health insurance savings costs. The fiscal year 2015/16 budget assumed a 5% increase in medical and dental insurance premiums. The actual medical premium increase was lower than anticipated in the budget, resulting in a budget savings of approximately \$256,423. Savings from the work furlough program are projected to generate an additional \$163,117 savings.

A recommendation to recognize the savings from these sources in the various department budgets and reduce the budgeted salary savings in the Non-Departmental budget by the same amount are included in the Council staff report that accompanies this report.

As discussed earlier in this report, there are some areas of concern that are not reflected in the in the projections summarized below. Staff will continue to work to address these issues and mitigate potential impacts to the General Fund.

General Fund Projections by Department
for June 30, 2016

Department	Amended Budget as of 9/30/15	Q1 Projected 6/30/16	Variance
City Council	\$ 1,488,642	\$ 1,488,642	\$ -
Boards & Commissions	\$ 77,520	\$ 77,520	\$ -
City Clerk	\$ 941,785	\$ 941,785	\$ -
City Attorney	\$ 3,044,005	\$ 3,044,005	\$ -
Administration	\$ 3,374,999	\$ 3,374,999	\$ -
Information Tech Svcs	\$ 3,587,516	\$ 3,587,516	\$ -
Human Resources	\$ 2,551,814	\$ 2,551,814	\$ -
Finance	\$ 3,721,803	\$ 3,721,803	\$ -
Non-Departmental	\$ 10,059,499	\$ 10,059,499	\$ -
Animal Care Facility	\$ 2,942,623	\$ 2,942,623	\$ -
Dev Services (GF)	\$ 2,476,400	\$ 2,476,400	\$ -
Police	\$ 49,568,159	\$ 49,568,159	\$ -
Fire	\$ 26,001,801	\$ 26,001,801	\$ -
Public Works	\$ 27,263,895	\$ 27,263,895	\$ -
Recreation	\$ 4,319,287	\$ 4,319,287	\$ -
Library	\$ 3,784,257	\$ 3,784,257	\$ -
Total Expenditures	\$ 145,204,005	\$145,204,005	\$ -

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
Development Services GF			
Jul-15	Transfer for copier lease	\$500	Supplies & Services to Capital
Human Resources			
Jul-15	Transfer to Other Expenses (Refund)	\$56	Supplies & Services to Other Expenses
Boards and Commissions			
Sep-15	Transfer for Personnel Services	\$100	Supplies & Services to Personnel

Mid-Year Budget Amendments

Mid-year expenditure appropriations approved through September 30, 2015 totaled \$71,599. The City Council approved changes to budgeted revenues of \$77,903. Combined, these changes result in a positive net impact of \$6,304.

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
7/14/2015	DHS Contraband Kit Purchase (Police)	\$ 21,599	\$ 21,599	\$ -
7/21/2015	HIDTA Position Reclassification (Police)	\$ 1,479	\$ -	\$ (1,479)
7/28/2014	FA Supervising Intel Analyst Admin Fee Revenue (Police)	\$ 4,825	\$ -	\$ (4,825)
9/15/2015	San Ysidro Health Clinic Amended Lease (Non-Departmental)	\$ 40,000	\$ 40,000	\$ -
8/5/2014	610 Bay BI Property Improvements for AIM Lease (Non-Departmental)	\$ 10,000	\$ 10,000	\$ -
	Total Appropriations to date:	\$ 77,903	\$ 71,599	\$ (6,304)