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General Fund Expenditure Summary

Chula Vista General Operating Budget
in thousands(000)

FY 15-16 Actual Expenditures	$143,769
FY 16-17 Adopted Budget	$146,421
FY 17-18 Proposed Budget	**$166,587**
% Change FY 16-17 to FY17-18	**13.7%**

The General Fund Proposed Operating Budget for fiscal year 2017-18 totals $166.6 million, which reflects an increase of $20.1 million (13.7%) when compared to the fiscal year 2016-17 adopted budget. Capital improvement projects will be funded by the Measure P commitment.

The General Fund Proposed Budget is balanced. The City defines a budget as balanced when the amount of budgeted expenditures is equal to or less than the amount of budgeted revenues plus other available sources. The General Fund includes funding for programs and services supported by the City Council in previous fiscal years. The fiscal year 2017-18 Proposed Budget sustains previous service levels and provides funding for 5.0 new Peace Officers within the Police Department's Community Patrol division.

The City's General Fund reflects positive growth in its major revenue sources. However, during the development of the baseline budget, the assumed revenue growth was not sufficient to close a $4.3 million budget gap that was identified in the initial stages of the budget development process. This gap required various departmental budget reductions and identification of additional revenue sources in order to balance the fiscal year 2017-18 Proposed Budget.

Despite the challenges of having to balance a $4.3 million budget gap, fiscal year 2017-18 will mark the first full fiscal year that City residents will benefit from the infrastructure projects funded as a result of the passage of Measure P. Measure P – a temporary, ten-year, half-cent sales tax funding is dedicated to funding high priority infrastructure, fleet replacement, technology and other capital equipment resources.

The fiscal year 2017-18 Proposed Budget contains $16.3 million of additional Measure P funding which comprises the majority of the increase in the General Fund budget for fiscal year 2017-18.

A comparison of the fiscal year 2017-18 proposed budget, the fiscal year 2016-17 adopted expenditures, and the fiscal year 2015-16 actual expenditures are summarized in the following table.

General Fund Expenditure Summary
In Thousands (000)

Description	FY 2015-16 Actual	FY 2016-17 Adopted	FY 2017-18 Proposed	Change
Personnel Services	$ 112,647	$ 118,623	$ 123,556	$ 4,933
Supplies and Services	$ 16,322	$ 14,114	$ 14,214	$ 100
Other Expenses	$ 703	$ 559	$ 642	$ 83
Capital	$ 505	$ 1,595	$ 150	$ (1,445)
Transfers Out	$ 6,775	$ 5,999	$ 22,943	$ 16,944
Non-CIP Project Expenditures	$ 359	$ 19	$ 19	$ -
Utilities	$ 4,850	$ 5,512	$ 5,063	$ (449)
Total Operating Budget	**$ 142,161**	**$ 146,421**	**$ 166,587**	**$ 20,166**
CIP Project Expenditures	$ 1,607	$ 40	$ -	$ (40)
Total General Fund Budget	**$ 143,768**	**$ 146,461**	**$ 166,587**	**$ 20,126**

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MAJOR EXPENDITURE CHANGES BY CATEGORY

- The Transfers Out category accounts for the largest increase in the General Fund at $16.9 million. This increase is largely due to the $16.3 million transfer for the voter approved Measure P Sales Tax revenues. The General Fund serves as a pass-through for these revenues and this expenditure represents the transfer of funds to the Measure P Sales Tax Fund. These revenues will be used to fund specific infrastructure projects and equipment purchases throughout the City. The Transfers Out category also includes a $0.8 million increase to the Public Liability fund as a result of increased claims activity. These increases are partially offset with a decrease in a transfer out for the capital lease of fire apparatus, which will be paid from Measure P funding.

- The Personnel Services category reflects an increase of $4.9 million and assumes a 2% increase for estimated inflation. A breakdown of the personnel services category changes include:
  - $2.8 million increase in budgeted Salaries - this increase reflects the annualized cost of wage increases approved by the City Council during fiscal year 2016-17, an estimated 2% wage inflation for all employee groups in fiscal year 2017-18, step increases, and the addition of 4.5 FTE.
  - $1.3 million in Worker's Comp charges, based on increased costs in the Workers Compensation Fund.
  - A $0.7 million increase for retirement costs which reflects the increased contribution rates based on the June 30, 2015 valuation report from CalPERS.
  - The proposed budget reflects a $0.5 million increase in budgeted overtime when compared to prior year adopted budget. This increase is due to the annualized cost of approved wage increases, estimated wage inflation, and an increase in the Police Departments reimbursed overtime to bring it in line with anticipated actuals.
  - The above increases were offset with a net increase of $0.4 million in budgeted salary savings. The fiscal year 2017-18 budget reflects $2.2 million in budgeted ongoing ($0.8) million and ($1.4) million of one-time salary savings. One-time salary savings was submitted by various departments as part of their department budget reductions.
  - Not reflected in the Personnel Services category are 12 Fire crew personnel that would be added if the City successfully receives the SAFER grant which was approved for submission by the City Council. The anticipated costs for fiscal year 2017-18 are estimated at $0.7 million. If the City is not awarded the grant funds, the City Manager will bring forward a mid-year budget amendment to add 12 Fire crew personnel and identify the budget adjustments necessary to maintain a balanced budget.

- The Supplies and Services expense category increased by $0.1 million when compared to the fiscal year 2016-17 budget. Overall, the Supplies and Services budget remained relatively unchanged from the fiscal year 2016-17 adopted budget as the changes to this category were offsetting, reflecting efforts to fund mandatory cost increases for fiscal year 2017-18. Among the changes made was a $0.6 million increase for various contractual obligations that included the following:

  - NPDES storm drain maintenance costs
  - Additional park maintenance costs for Stylus Park and Orange Park
  - Increased street sweeping costs
  - Increased information technology security services
  - Increased regional radio communication charges
  - Additional capture services from the City's sales tax consultant for monitoring Measure P sales tax collections

  This increase was offset by reductions in other Supplies and Services expenditures that were necessary in order to balance in the budget. These reductions are as follows:

  - A $0.15 million decrease in fleet maintenance charges
  - A $0.1 million decrease in attorney services
  - A $0.1 million decrease in software maintenance fees
  - $0.1 million decrease in construction materials, building and automotive

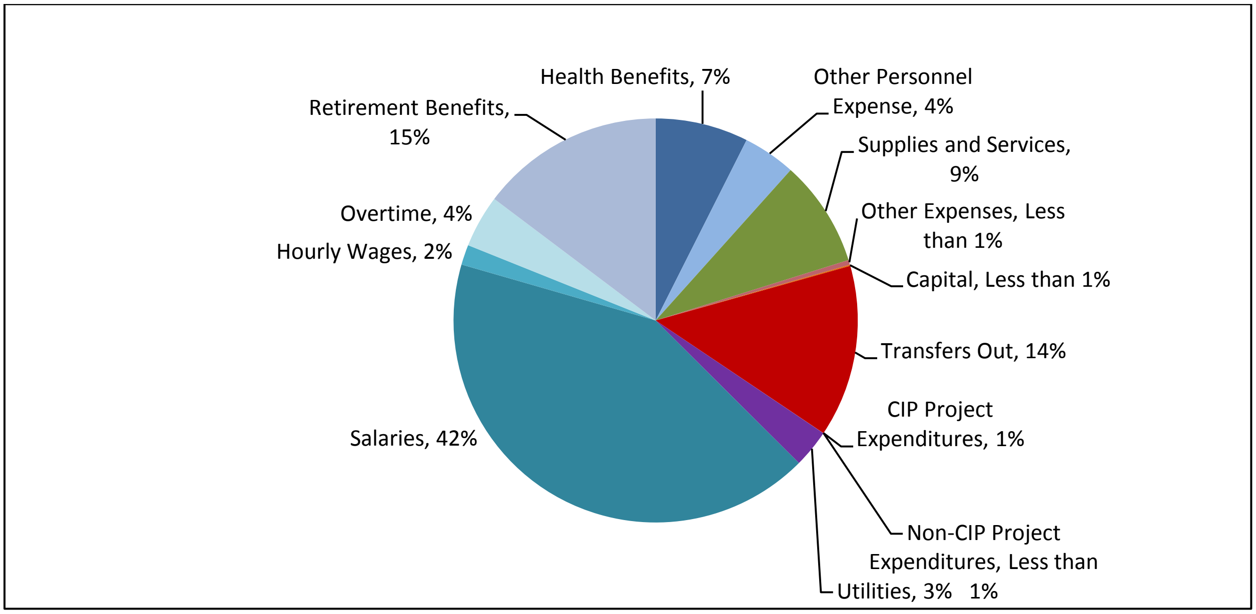
maintenance services

- The Other Expenses category is increasing by $0.1 million for the City's share of the cost related to the Otay Valley Regional Park and credit card service charges.

- The Utilities expense category has been decreased by a net $0.4 million when compared to the fiscal year 2016-17 adopted budget. Departmental Utility budgets have been adjusted to reflect projected expenditures for fiscal year 2017-18 based on expected rate increases and projected savings as a result of energy efficiency projects.

- The Capital expenditures category reflects a decrease of $1.4 million due to the one-time acquisition and outfitting costs for two fire engines budgeted in the previous fiscal year but not carried forward into the fiscal year 2017-18 budget.

General Fund Expenditures by Category
Fiscal Year 2017-2018



Note: Personnel Services accounts for 74.2% of General Fund expenditures in the fiscal year 2017-18 proposed budget.

General Fund Expenditures History by Category
Fiscal Year 2013 through 2017

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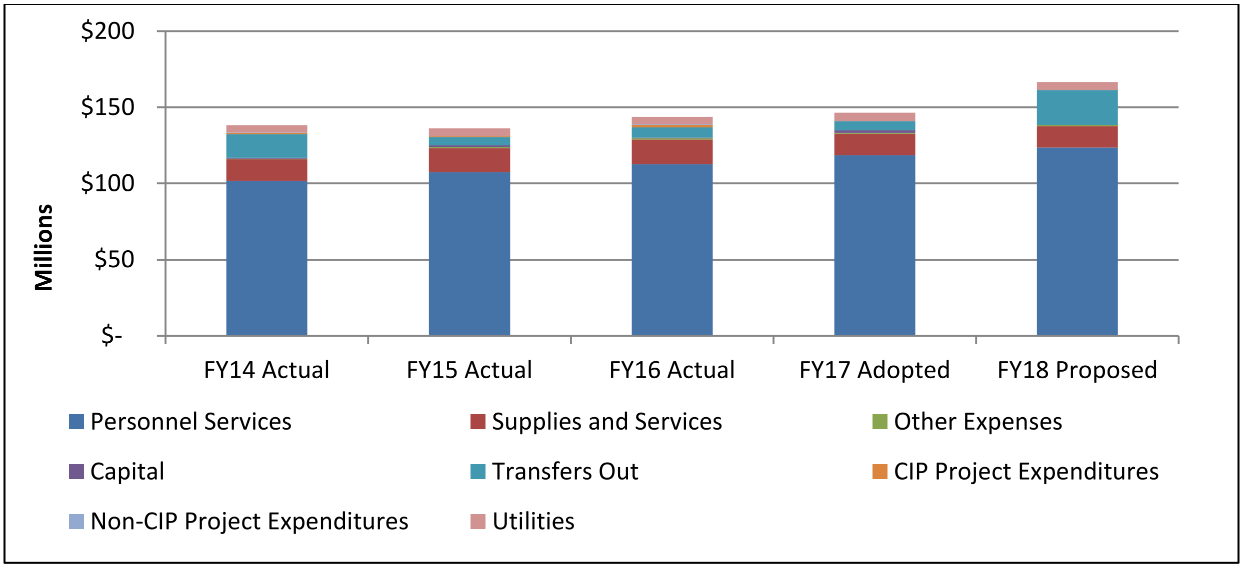

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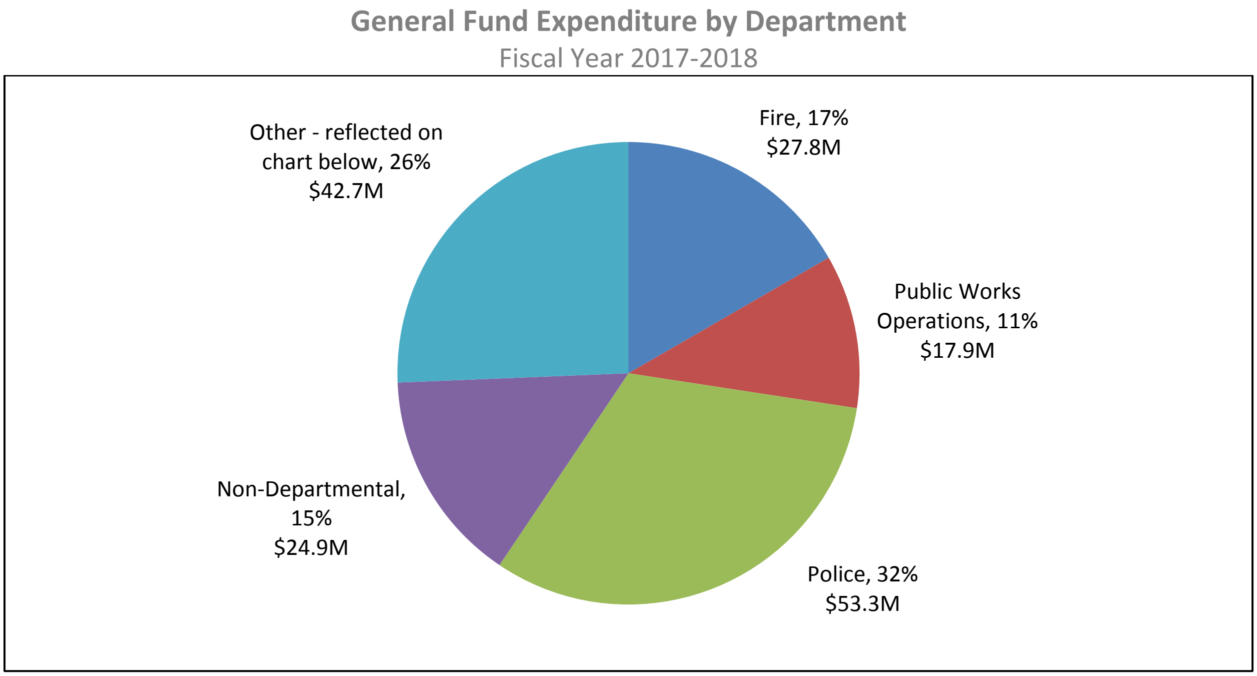
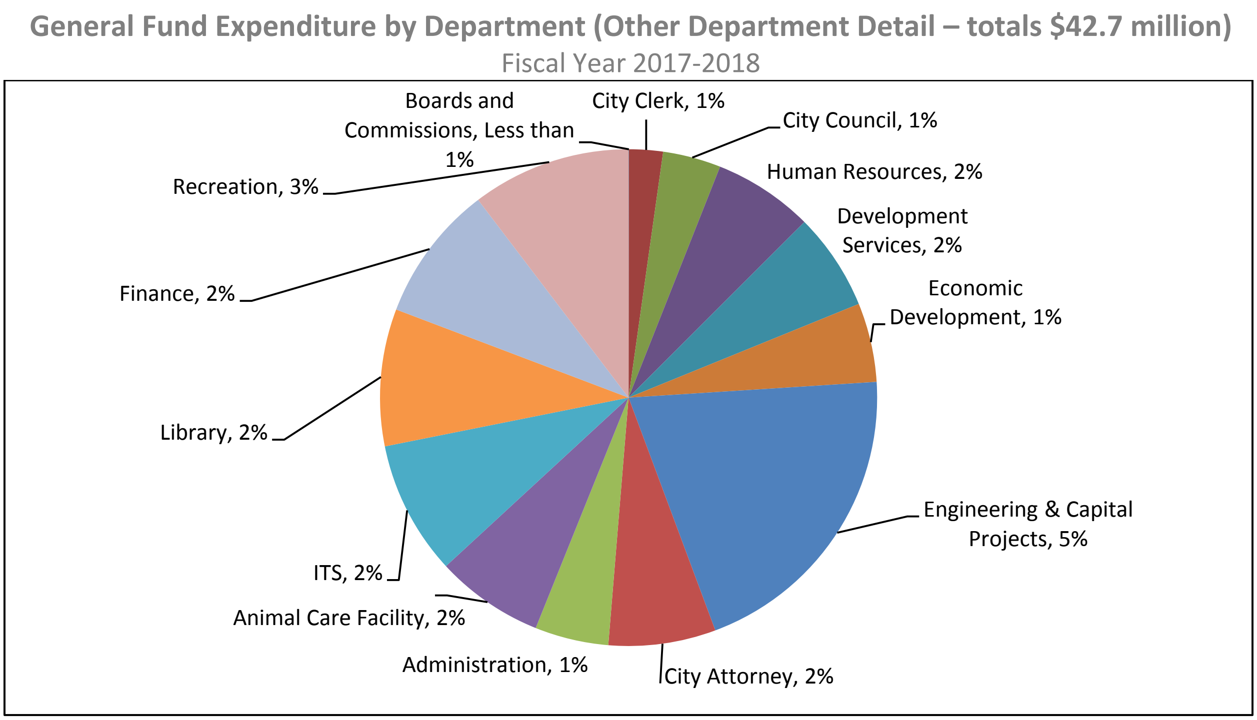


Note: The chart above does not reflect net cost of each department, only their expenditure allocations.

The following chart reflects the "Other" department costs included in the previous chart that includes the $42.7 million of the General Fund department budget expenditures.



Note: The chart above does not reflect net cost of each department, only their expenditure allocations.

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STAFFING LEVELS

As revenue levels have improved, the City has continued the trend of slowly recovering its staffing levels previously reduced as a result of the Great Recession. Since fiscal year 2013-14, the City has been able to achieve a 4.6% increase in staffing. This increase in staffing is over all funds, and manages to slightly exceed a 3.7% population increase over the same period of time.

Staffing for Community Services and the Development and Maintenance Services categories have grown by 2.6% and 7.1% respectively from 2013-14. Staffing for the Legislative and Administrative service category has remained flat with no change over the same period of time. Public Safety staffing levels have increased by 4.1% – this increase includes the addition of various grant funded positions.

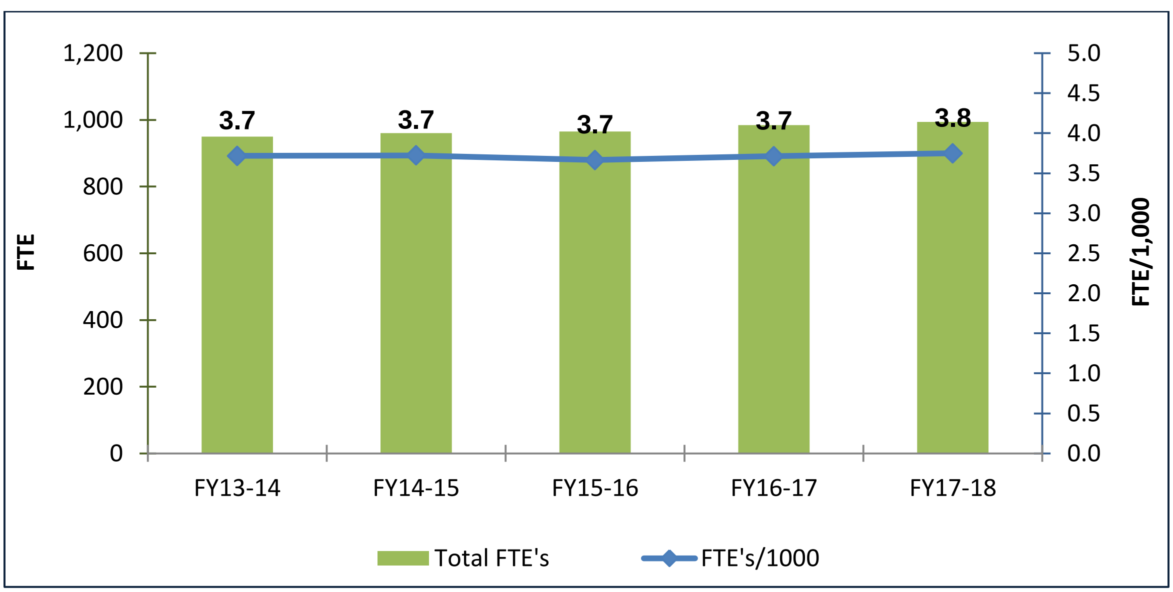
Budget constraints necessitated the net elimination of 331.4 full time equivalent (FTE) positions from the City's peak employment of 1,263.75 FTEs during fiscal year 2006-07. The last major reduction occurred in 2011 and was carried forward into the fiscal year 2012-13 budget. As shown in the following graph, the number of FTEs per thousand per capita has remained relatively unchanged since fiscal year 2013-14.

Staffing Level Fiscal Year 2013-2014 to Fiscal Year 2017-2018

Council Adopted Budget	FY 13-14	FY 14-15	FY 15-16	FY16-17	FY17-18	% Chg.
Legislative and Administrative	105.00	106.00	111.00	105.00	105.00	0.0%
Development and Maintenance	312.50	315.75	316.25	335.25	334.75	7.1%
Public Safety	494.00	500.50	498.50	504.50	514.50	4.1%
Community Services	38.50	38.50	39.50	39.50	39.50	2.6%
Total City Staff	950.00	960.75	965.25	984.25	993.75	4.6%

City of Chula Vista Staffing (FTEs)

Compared to FTEs per Thousand Residents



SALARY ADJUSTMENTS

During the economic recession the City's bargaining groups worked with City management to reach new agreements that reduced personnel costs in an effort to balance the budget. The adjustments to employee compensation included wage concessions and pension reform. The City granted salary increases to its employee bargaining groups as the City began to see revenue improvements. However, ongoing increases in retirement and health premium costs (discussed in the following sections), have strained the City's ability to provide wage increases to its employees.

The proposed budget includes funding for the annualized costs of negotiated salary increases approved for employee groups during the 2016-17 fiscal year. The proposed budget also reflects an estimated wage inflation of 2% for all employee groups for fiscal year 2017-18. At the time of the development of the proposed budget, the City was in negotiations with the Police Officers' Association and the International Association of Firefighters. Agreements were reached with these groups during the final development of the budget. Any additional impact as a result of the agreements reached with these two labor groups and any agreements attained with the other City's labor groups after adoption of the budget will be brought forward for Council approval.

RISING RETIREMENT COSTS

The increase in retirement costs driven by rising CalPERS contributions is a significant budgetary challenge facing the City. The payments estimated to be made to the retirement system equal 16.2% of the City's General Fund in the fiscal year 2017-18 proposed budget.

Increases in CalPERS contributions can be attributed to several factors. In the early 2000's the City approved enhanced formula benefits for all City employees. During the economic downturn, the City approved an early retirement incentive to encourage employees to retire thereby reducing the number of layoffs, but this came at the expense of increasing the City's payment to CalPERS. The impact of retirement cost increases were partially offset through negotiations with City's bargaining groups that resulted in the implementation of pension reform. Under the negotiated pension reform, employees agreed to pay their share of pension costs and thereby provided a one-time base level of employee retirement payments. However, this action did not reduce future cost increases. During this same time period, CalPERS experienced significant investment losses.

Over the last several years, CalPERS has made a series of changes that have resulted in higher contribution rates. Prior to fiscal year 2005-06, the CalPERS investment pool assumed a rate of return of 8.25% and any market gains (or losses) less than that amount would significantly affect the City's overall contribution rate. In fiscal year 2005-06, CalPERS adjusted their investment return assumption to 7.75%. In 2012, the CalPERS Board of Administration approved a recommendation to lower the rate of investment return assumption from 7.75% to 7.50%. On December 21, 2016, the CalPERS Board of Directors decided to lower the rate of return assumption from 7.5% to 7.0% beginning in fiscal year 2018-19. CalPERS is implementing this change for the following reasons:

- Strengthening long-term sustainability of the pension fund
- Reducing negative cash flows; additional contributions will help to offset the cost to pay pensions
- Reducing the long-term probability of funded ratios falling below undesirable levels
- Improving the likelihood of CalPERS investments earning the assumed rate of return
- Reducing the risk of contribution increases in the future from volatile investment markets
- Allows for reduced portfolio risk consistent with the new risk mitigation policy

In addition, as outlined in their June 15, 2015 valuation report to the City, beginning in fiscal year 2017-18, CalPERS will collect employer contributions toward the plan's unfunded liability as dollar amounts instead of the prior method of a contribution rate. This change will address potential funding issues that could arise from a declining payroll or reduction in the number of active members in the plan. Funding the unfunded liability as a percentage of payroll could lead to the underfunding of the plans. Although employers will be invoiced at the beginning of the fiscal year for their unfunded liability payment, the plan's normal cost contribution will continue to be collected as a percentage of payroll.

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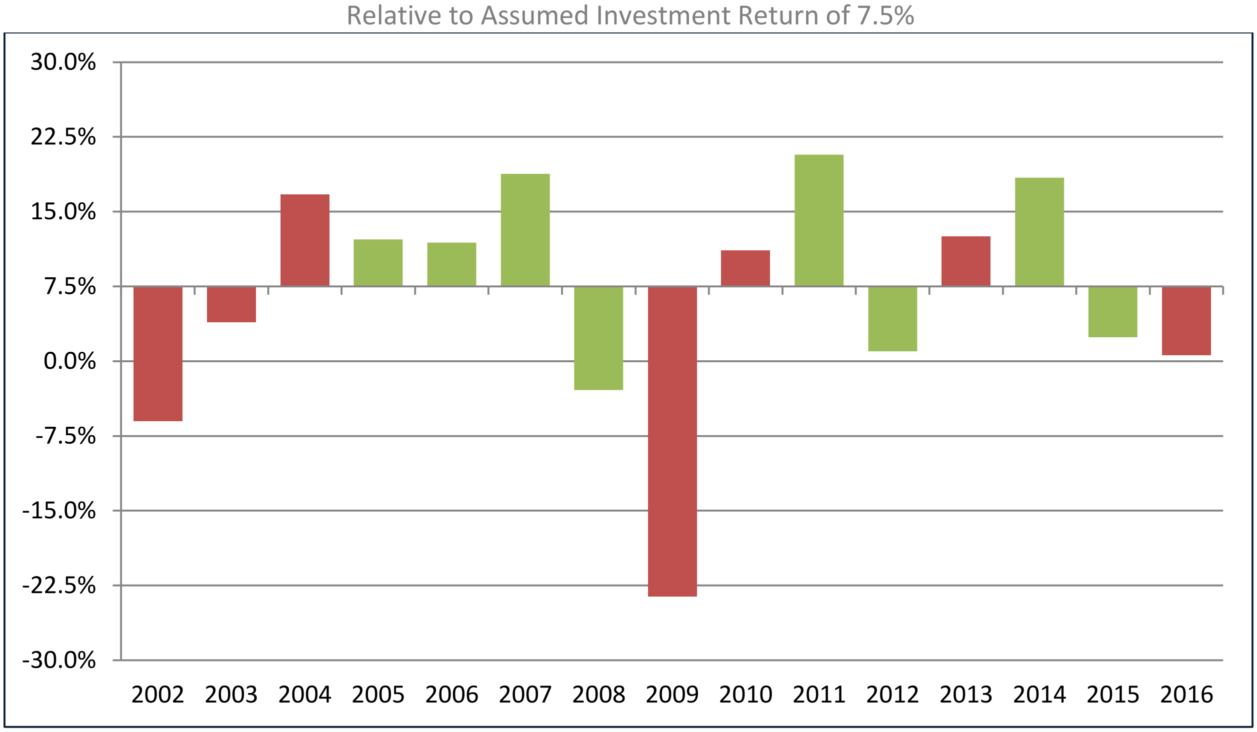
The CalPERS Board of Administration also adopted a Risk Mitigation Policy which is designed to reduce funding risk over time. The policy establishes a mechanism whereby CalPERS investment performance that significantly outperforms the discount rate triggers adjustments to the discount rate, expected investment return and strategic asset allocation targets. A minimum excess investment return of 4% above the existing discount rate is necessary to cause a risk mitigation event. The policy has no impact on the current year valuation results but is expected to have an impact in future years.

The budgetary impacts caused by the increased employer contribution rates for retirement costs due to lower CalPERS investment returns and corrective policy changes, have been significant and will continue to challenge the City in future years. To follow is a series of charts related to pension costs. The first chart depicts the actual market rates of return for the CalPERS investment portfolio relative to the assumed 7.5% rate of return. This chart will be restructured in future fiscal years to display actual rates of return for the CalPERS assumed rates as they are updated. The second chart reflects actual CalPERS costs in the General Fund for fiscal years 2014 to the 2016-17 Adopted budget and the 2017-18 Proposed Budget cost. The final chart reflects historical CalPERS contributions illustrating the employer (City) contribution rates from fiscal years 2003-04 to 2016-17 and projected rates for fiscal years 2017-18 through 2021-22.

CalPERS Historical Market Value Rates of Return

Relative to Assumed Investment Return of 7.5%



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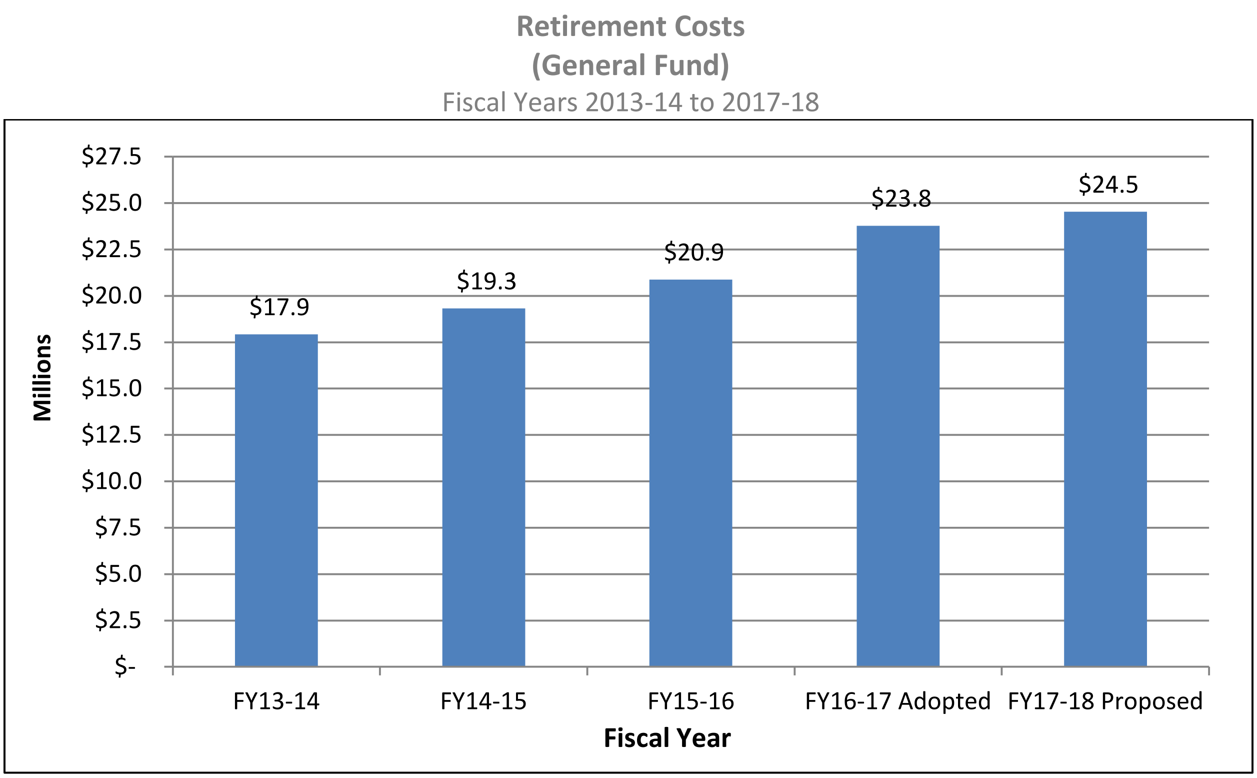
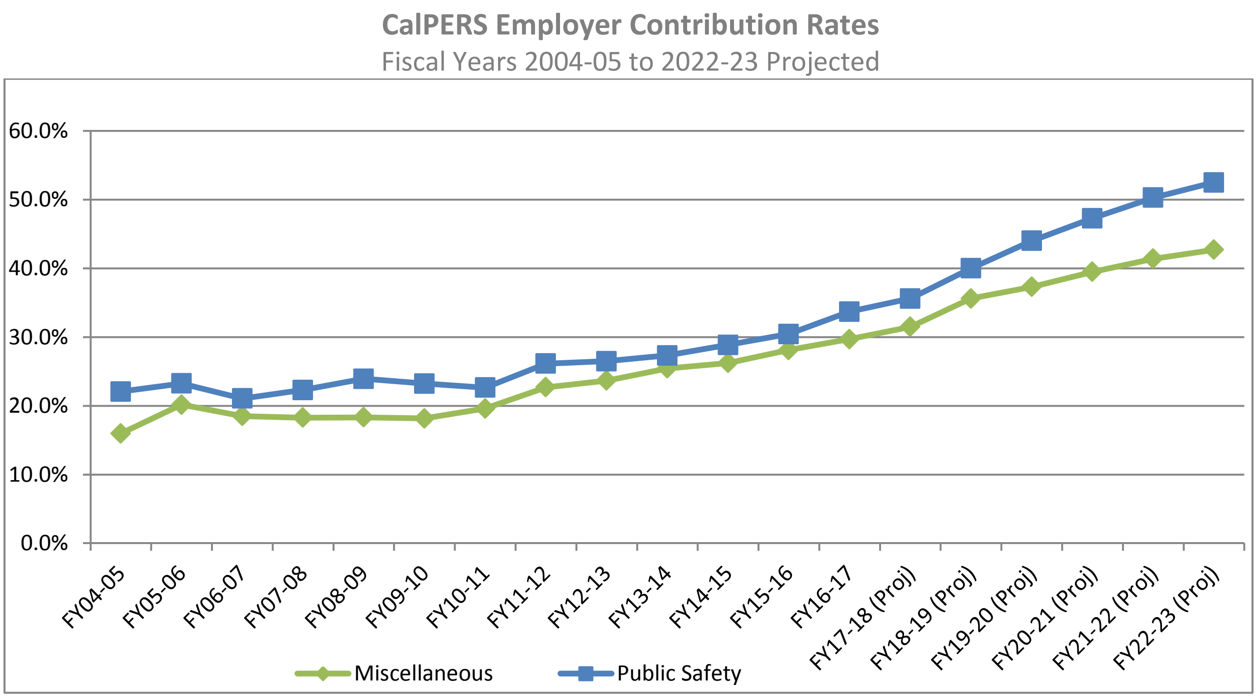




Notes:

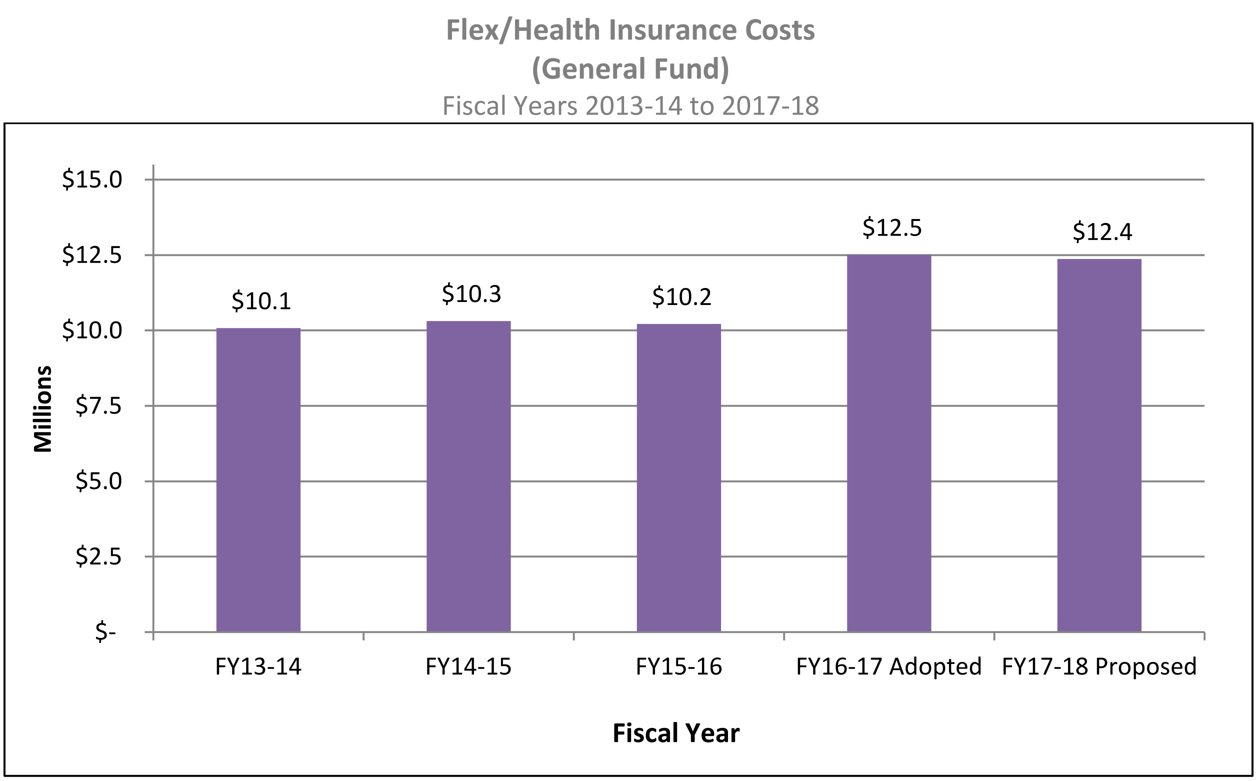
1. Reflects Employer Contribution. The actual employer contribution is higher due to Employer Paid Member Contributions (EPMC) ranging from 1.3% to 4.2%, and for applicable years an additional 8% and 9% for the Employer Paid Member Contribution (Employee Contribution).
2. Projected rates (FY 2018 through FY 2022), based on Bartel Associates, LLC report dated 02/02/2017.

HEALTH CARE COSTS

Flex/Health insurance represents 7.4% of the total fiscal year 2017-18 General Fund expenditure budget and accounts for the health care costs for permanent employees. Fiscal year 2017-18 shows a slight decrease compared to the prior fiscal year adopted budget. In fiscal year 2016-17 the anticipated increase in healthcare premiums was estimated at 15%. The actual increase was lower than this estimation as a result of the City's switch in health insurance providers from AETNA to United Healthcare UHC) in 2017. This is carried forward into the first half of fiscal year 2017-18, which results in the $0.1 million decrease in comparison to the prior year adopted budget. The fiscal year 2017-18 proposed budget estimates a 10% increase in healthcare premiums in calendar year 2018.

To follow are charts and tables reflecting the increased expenditures related to flex/health insurance. The first chart illustrates the actual Flex/Health insurance costs in the General Fund for fiscal years 2014 to 2016, the adopted budget for fiscal year 2016-17 and the proposed budget for fiscal year 2017-18. Actual Flex/Health insurance costs have increased annually and represent an ongoing challenge that the City will continue to address in future budgets.

The subsequent table displays Flex Allotments by bargaining group from calendar year 2013 to calendar year 2017. Flex Allotments are the amounts provided by the City for employees to use towards the purchase of their health benefits. This allotment is negotiated between the City and each bargaining group. As illustrated by the table, costs to the City in the area of flex/health insurance have increased significantly since calendar year 2013. Flex allotment costs for 2018 were not available at the time the proposed budget was written.



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Flex Allotment Increases by Bargaining Group

Calendar Year 2013 to Calendar Year 2017

FLEX Allotment Increases by Bargaining Unit						
Bargaining Group	2013	2014[1]	2015	2016	2017	2013-2017 % Change
Confidential	$ 12,386	$ 13,074	$ 13,524	$ 13,682	$ 13,760	11.1%
Chula Vista Employees Association	$ 11,886	$ 12,574	$ 13,024	$ 13,182	$ 13,260	11.6%
Executive	$ 15,162	$ 15,850	$ 16,300	$ 16,458	$ 16,536	9.1%
Mid Managers and Professionals	$ 12,762	$ 13,450	$ 13,900	$ 14,058	$ 14,136	10.8%
Senior Managers	$ 13,762	$ 14,450	$ 14,900	$ 15,058	$ 15,136	10.0%
Western Council of Engineers	$ 12,762	$ 13,450	$ 13,900	$ 14,058	$ 14,136	10.8%
Mayor & Council	$ 15,162	$ 15,850	$ 16,300	$ 16,458	$ 16,536	9.1%

(1) Flex allotments remain at the 2013 amounts for all Employee Only members within the following employee groups: Confidential, Executive, Mid Managers and Professionals, Senior Managers, Western Council of Engineers, and Mayor & Council.

The public safety bargaining group is not included in the preceding table as their negotiated benefits differ from the other bargaining groups.

The City pays the full premium for Kaiser HMO Health Plan and Cigna DHMO pre-paid dental plan for the employee and any eligible dependents of the public safety bargaining group members. Previously public safety employees who chose a non-Kaiser HMO coverage paid a flat annual amount regardless of the number of dependents covered. However, the new labor agreements reached with public safety employees stipulate that public safety employees who choose a non-Kaiser HMO coverage will be assuming a share of the cost difference between the Kaiser premium and the non-Kaiser HMO coverage. For example, effective January 1, 2018, for any Police Officer's Association (POA) members enrolling in a non-Kaiser HMO, the City will pay 2/3 of the premium difference, less $50 per month. International Association of Firefighters (IAFF) members hired on or after April 25, 2017 enrolling in any non-Kaiser plan are responsible to pay any amount greater than the cost of the Kaiser Plan. Employees choosing the Cigna DPPO preferred provider plan are responsible for any additional costs over and above the Cigna DHMO pre-paid plan. Due to the annual increase of flex/health insurance costs the amount the City has paid in insurance premiums have risen. As illustrated in the table below, medical premiums the City pays on behalf of public safety employees have increased by between 4% and 30% (depending on medical group elections) since calendar year 2013. Due to a switch in dental care providers, the City has seen a decrease of 14% to 15% in dental premiums over the same period of time.

The following table presents the range of benefits the City provides in medical and dental insurance to public safety employees and their dependents.

City Provided Public Safety Flex Benefit Ranges

Calendar Year 2013 to Calendar Year 2017

Public Safety FLEX Benefit Ranges						
Benefit	2013	2014	2015	2016	2017	2013-2017 % Change
Medical	$5,436 - $16,752	$5,988 - $18,180	$5,784 - $19,848	$5,568 - $20,628	$6,408-$19,776	4% - 30%
Dental[1]	$168 - $396	$168 - $396	$180 - $432	$180 - $432	$192-$456	(14%) - (15%)

(1)Dental insurance for public safety employees is fully compensated for at the DHMO level. Employees may choose PPO and pay the variance between DHMO and PPO.

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Insurance Premiums

Kaiser and AETNA/UHC insurance premiums have increased an average of 3.9% and 4.6% per year respectively since the beginning of calendar year 2013. As noted in the table below, Kaiser premiums have increased a total of 19.7% during this time while AETNA/UHC premiums have increased 24.5% over the same period. Premiums decreased by 3.8% in 2017 as the City switched its insurance provider from AETNA to UHC. The annual budget for Flex/Health Insurance has increased from $10.1 million in fiscal year 2013-14 to $12.4 million in the fiscal year 2017-18 Proposed Budget. Recent discussions with health care professionals indicate these high trends in health care costs are likely to continue for the foreseeable future. For fiscal year 2017-18, the proposed budget reflects an anticipated premium increase of 10% based on the preliminary information provided by the health care providers.

The following table reflects the changes in health care rate premiums the City has experienced from January 2013 to January 2017. The final rate premium that will be in effect for January 2018 will not be known until late summer or early fall.

Premium Increases by Health Care Provider

Calendar Year 2013 to 2017

Date of Increase	Kaiser	AETNA/UHC
January 2013	1.6%	5.5%
January 2014	10.2%	8.5%
January 2015	-3.4%	8.9%
January 2016	-3.8%	3.8%
January 2017	15.1%	-3.8%
Annual Average Premium Increase	**3.9%**	**4.6%**
Total Premium Increase (January 2013 – January 2017)	**19.7%**	**24.5%**

Total increase reflects average changes in premium costs from 2013-2017 for Kaiser and AETNA/UHC

FIRE

SUMMARY OF DEPARTMENT RESOURCES

BUDGET CATEGORY	FY 2014-15 ACTUAL	FY 2015-16 ACTUAL	FY 2016-17 ADOPTED	FY 2017-18 PROPOSED
EXPENDITURES				
Personnel Expenses				
Salaries	10,888,273	11,417,004	12,124,788	12,513,487
Hourly Wages	106,910	62,654	4,940	4,940
Overtime	4,334,502	4,834,095	3,711,031	3,821,323
Health Benefits	2,014,714	2,017,304	2,356,303	2,346,228
Retirement Benefits	4,130,000	4,536,411	5,162,570	5,077,847
Other Personnel Expense	1,398,643	1,457,877	1,421,045	1,475,075
Personnel Expenses Subtotal	**22,873,042**	**24,325,345**	**24,780,677**	**25,238,900**
Non-Personnel Expenses				
Supplies and Services	1,988,270	2,049,885	2,257,550	2,271,285
Capital	0	155,311	150,000	0
Utilities	204,781	203,352	228,188	201,327
Transfers Out	47,330	61,620	62,326	62,326
Non-Personnel Expenses Subtotal	**2,240,381**	**2,470,168**	**2,698,064**	**2,534,938**
TOTAL EXPENDITURES	**$25,113,423**	**$26,795,513**	**$27,478,741**	**$27,773,838**
REVENUES				
Licenses and Permits	458,497	432,705	437,519	437,519
Use of Money & Property	15,600	15,600	15,600	15,600
Revenue from Other Agencies	666,907	669,000	664,000	664,000
Charges for Services	549,571	586,479	472,282	584,782
Other Revenue	597,907	1,370,672	30,702	198,085
Transfers In	649,923	828,194	972,453	972,453
TOTAL REVENUES	**$2,938,405**	**$3,902,650**	**$2,592,556**	**$2,872,439**
REVENUE RECOVERY %	**12%**	**15%**	**9%**	**10%**
AUTHORIZED FULL TIME POSITIONS	**136.00**	**136.00**	**136.00**	**136.00**

Footnote:

Not reflected in the Personnel Services category are 12 Fire crew personnel that would be added if the City successfully receives the SAFER grant which was approved for submission by the City Council. The anticipated costs for fiscal year 2017-18 are estimated at $0.7 million. If the City is not awarded the grant funds, the City Manager will bring forward a mid-year budget amendment to add 12 Fire crew personnel and identify the budget adjustments necessary to maintain a balanced budget.