

## OVERVIEW

This financial report summarizes the City's General Fund financial position for Fiscal Year 2017-2018 through March 31, 2018, and projections for the remainder of the year ending on June 30, 2018. 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.

This report also includes a brief status update of the Measure P revenue as well as an update on the City's long-term financial plan (LTFP). The LTFP is a forecast of ten future years based upon information available at the time and is updated annually to reflect the most current information available. This quarterly financial report contains an update of the years up until 2028 (attached) and a discussion about the next five years. The LTFP was first presented with the City's Fiscal Year 2017-18 budget.

## NATIONAL, STATE, AND REGION ECONOMIC UPDATE

The National Forecast<sup>1</sup> - UCLA Anderson Forecast's first quarter report for 2018 notes a definitive change in the nation's economy. The Forecast sees the economy moving from one of slow growth accompanied by low inflation to an economy driven by accelerating growth and moderate inflation. In addition to the changes in the projections for economic growth and inflation, Jerome Powell, the new Fed Chair, is anticipated to transition the monetary policy from one of accommodation to one of normalization. The Federal Reserve is anticipated to initiate four federal funds rate increases in 2018. The Forecast sees a "regime change" occurring in the national economy. A change to multiple economic drivers which impact financial markets, such as economic growth, inflation, monetary policy or labor supply, is often referred to a "regime change" by economists.

Per the Forecast, the changes to these key economic drivers is occurring as the Trump Administration

moves the nation's fiscal policy from a moderate deficit to one with trillion dollar deficits on the horizon. The \$300 billion budget compromise during a two-year period, combined with the recently enacted \$1.5 trillion tax cuts during a 10-year period, highlighted the demise of the so-called deficit hawks.

Per the Forecast, real GDP growth is projected to be 2.9% for 2018 but will slow to 2.6% in 2019 and a sluggish 1.6% in 2020. UCLA Anderson Forecast Senior Economist David Shulman states that the slowdown is due to the economy already operation at full employment and is bound by slow labor force growth and sluggish productivity. Shulman continues to state that job growth is expected continue, albeit at a slower clip than in recent years, with the unemployment rate hitting 3.5% in early 2019.

Housing activity is projected to continue to expand through 2019 however not at the pace seen in recent years. Increasing interest rates and higher home prices are anticipated play key roles in slowing the housing growth. After recording 1.2 million housing starts in 2017, the Forecast anticipates 1.3 million in 2018, increasing to 1.38 million in 2019 and 1.36 million in 2020.

The California Forecast - The Forecast notes that California continues to be a leader in the nation in job growth, hitting all-time high employment in December 2017. During the last three months of 2017, employment growth accelerated in most of the state, with inland regions outpacing some of the faster growing, tech-dependent regions. The forecast for 2018, 2019, and 2020 total employment growth in California is 2.2%, 1.7%, and 0.9%, respectively. Payrolls are anticipated to grow at the same rate as employment however real personal income is forecast to grow at 3.1%, 3.6%, and 2.8% in 2018, 2019, and 2020. Homebuilding is anticipated to reach approximately 138,000 units per year in 2020.

UCLA Anderson Forecast Director and Senior Economist Jerry Nickelsburg notes with a budget resolution calling for a significant increase in the purchase of sophisticated defense durable goods, demand for manufacturing and engineering in Southern California may increase. The California tech

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<sup>1</sup> Source: UCLA Anderson Forecast: "UCLA Anderson Forecast Sees "Regime Change"; Could the Economy Stall Out under Higher Inflation and Interest Rates?"; retrieved from URL: <http://www.anderson.ucla.edu/centers/ucla-anderson-forecast/march-2017-economic-outlook>

industry could see a bump in investment in technologically advanced equipment and an increase in demand for products. Nickelsburg does note that “more labor will be needed and wages will have to increase to draw the labor in, either from the sidelines or from outside the state”.

**The San Diego Forecast<sup>2</sup>** -The University of San Diego (USD) Burnham-Moores Center for Real Estate’s (BMC) Index of Leading Economic Indicators for San Diego County rose 0.5 percent in March. March’s gain marked the 17th straight month in which the Index was either positive or unchanged (15 of those months were positive). The outlook for the local economy remains positive through the end of 2018. March’s gain puts the USD BMC at 153.0, up from February’s reading of 152.2. The following graph illustrates the USD BMC since January 2013.

### San Diego Index of Leading Economic Indicators San Diego County, 2013 – 2018



March’s strong rise was due to a sharp increase for initial claims for unemployment insurance. Local stock prices, consumer confidence, online help wanted advertising, and the outlook for the national economy were all up slightly in March as well. The only down component was residential units authorized by building permits, which were down moderately. Despite the downturn in March, it was a good quarter for building permits, as residential units

authorized were more than doubled compared to the same quarter in 2017 (led by multi-family units). The following table provides the monthly change to the individual economic indicators that make up the USD BMC.

<b>Index of Leading Economic Indicators</b>	
The index for San Diego County that includes the components listed below	<b>+0.5%</b>
<b>Building Permits</b>	
Residential Units authorized by building permits in San Diego County	<b>-0.68%</b>
<b>Unemployment Insurance</b>	
Initial claims for unemployment insurance in San Diego County	<b>+1.56%</b>
<b>Stock Prices</b>	
Bloomberg San Diego County Index	<b>+0.88%</b>
<b>Consumer Confidence</b>	
An index of consumer confidence in San Diego County	<b>+0.35%</b>
<b>Help Wanted Advertising</b>	
An index of online help wanted advertising in San Diego County	<b>+0.27%</b>
<b>National Economy</b>	
Index of Leading Economic Indicators	<b>+0.56%</b>

<sup>2</sup> Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, April 2017; retrieved from URL: <http://home.sandiego.edu/~agin/usdlel/index.html>

## Overview

At the end of the third quarter, the City's financial outlook is projected to improve over the Second Quarter Monitoring Report as the updated projections anticipate growth in revenues to slightly exceed growth in expenditures for the fiscal year. Based on current projections, revenues are anticipated to increase by \$5.5 million and expenditures are anticipated to increase by \$5.2 million for a difference (surplus) of approximately \$0.3 million from the Amended Budget.

A primary driver of the increase in revenues and expenditures is a projected increase in funds generated by the Measure P Sales Tax measure. Based on current projections, funds generated by the Measure P Sales Tax are anticipated to exceed current projections by approximately \$1.5 million for the fiscal year. This amount is reflected in both revenues and expenditures as these funds are received by the City's General Fund as revenue but are then transferred out (expenditure) to the 2016 Measure P Fund to track and monitor these funds.

In addition to the projected increase in Measure P funds, other contributors to the increase in revenues include: an increase in the Other Revenue category driven by an increase of \$1.2 million in long-term debt financing proceeds (for the lease of a fire vehicle); an increase in the Interfund Reimbursement category of \$1.5 million, and an increase of approximately \$0.4 million in the Charges for Services category.

For expenditures, the largest contributors to the increase expenditures include the corresponding transfer out of \$1.5 million in Measure P funds, the corresponding expense of \$1.2 million for the revenue booked for the lease of the fire vehicle (revenue added for this expense), and approximately \$1.0 million in additional fire department expenditures.

## Amended Budget

### Revenues

For revenues, property related taxes (Property Tax and Property Tax collected in lieu of Vehicle Motor License Fees), Sales Tax, and Measure P Sales Tax are

all trending higher than originally projected. However, projections for Franchise Fees, Transient Occupancy Tax and Utility User Tax are being reduced as these revenue categories are trending lower than the Amended Budget projection. The positive growth in the revenue categories is anticipated to exceed the reduced revenue projections for a net increase of approximately \$5.5 million from the Amended Budget. The following table shows the Amended Budget and Projected Budget revenues. The Projected Budgeted amounts include all previously approved budget amendments as well as the change in projections included in this report.

### PROJECTED GENERAL FUND REVENUES

Revenue Category	Amended Budget	Projected Budget	Variance
Property Taxes	\$ 33,620,932	\$ 34,514,592	\$ 893,660
Sales Tax	32,935,356	32,977,000	41,644
Measure P Sales Tax	16,320,000	17,859,000	1,539,000
Franchise Fees	11,968,648	11,580,293	(388,355)
Utility Users Tax	5,860,328	5,602,595	(257,733)
Transient Occupancy Taxes	4,316,267	4,022,351	(293,916)
PT in lieu of Motor Vehicle License Fee (VLF) <sup>1</sup>	20,844,039	21,200,962	356,923
Development Revenue	1,205,153	1,267,127	61,974
License and Permits	1,364,143	1,438,532	74,389
Fines, Forfeitures, Penalties	1,075,423	1,157,033	81,610
Use of Money & Property	2,921,115	3,125,582	204,467
Other Local Taxes	2,598,193	2,598,193	-
Police Grants	757,701	759,767	2,066
Other Agency Revenue	2,075,449	2,231,312	155,863
Charges for Services	7,310,591	7,744,254	433,663
Interfund Reimbursements	10,764,171	12,268,652	1,504,481
Other Revenues	1,037,073	2,395,852	1,358,779
Transfers From Other Funds	11,750,177	11,500,177	(250,000)
<b>TOTAL REVENUES</b>	<b>\$ 168,724,759</b>	<b>\$ 174,243,274</b>	<b>\$ 5,518,515</b>

<sup>1</sup>Property Tax in Lieu of Vehicle License Fees was previously accounted for as Motor Vehicle License fees (VLF) in the State Revenue category. VLF was replaced by a backfill from property taxes following the permanent reduction of the VLF rate from 2% to 0.65% in 2004.

The City receives revenue from multiple sources, the primary sources being Sales Tax, Property Tax, Property Tax in lieu of Vehicle Licenses Fees (MVLFF), Franchise Fees, Utility User Fees, and Transient Occupancy Tax. These are considered the major revenue sources for the City. Changes in projections to these sources have the greatest impact on the City's financial projections. The following are brief status updates on these revenue sources.

**Sales Tax (exclusion of funds generated by Measure P)** – Revenue from the Bradley-Burns sales tax (1% of retail sales) is one of the City's largest revenue source as projected for Fiscal Year 2017/18.

This revenue (totaling approximately \$33.0 million) makes up approximately 19% of General Fund revenues for Fiscal Year 2017/2018.

Detailed collection data is provided by the State Board of Equalization and analyzed by the City's sales tax advisor HdL Companies. The most current data available is for the fourth quarter of Calendar Year 2017 (October through December of 2017). Compared to the same prior-year quarter, sales tax receipts grew by a modest 2%, although there were variations within the seven major industry categories. The Autos and Transportation category showed a 6% decline in sales while the Fuel and Service Station category increased by 24%. The largest producing industry category, in terms of gross sales, is General Consumer Goods which grew by 7% in comparison to the same 2016 quarter. Other sectors experienced increases when compared to the same quarter in 2016; these included Restaurants and Hotels (3%), and Building and Construction (9%).

City staff will continue to monitor sales taxes for the impact of internet sales. Taxes collected by on-line retailers go into a countywide pool and are distributed to the participating cities based upon their share of countywide sales rather than by population. Chula Vista represents 8.5% of the population of the County, but only 6% of the County sales. This method tends to disfavor Chula Vista and may result in further revisions to sales tax projections.

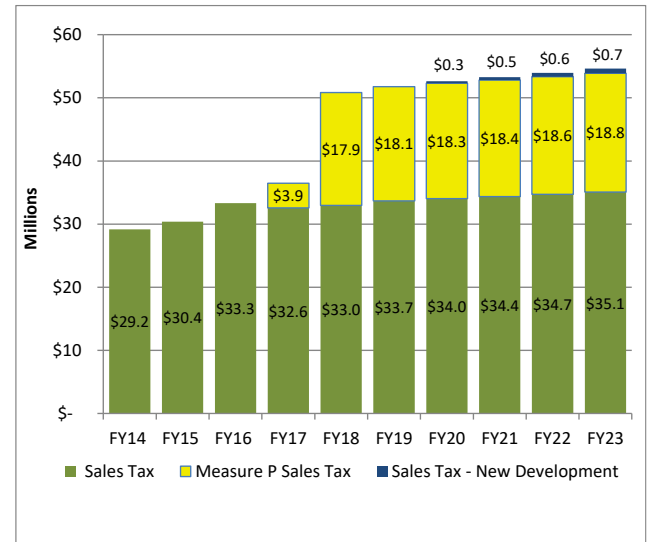
The following Sales Tax chart represents actual Sales Tax collections since Fiscal Year 2012/13 and the projection for Fiscal Year 2017/18.

**Measure P Sales Tax** – Revenue allocations from the Measure P Sales Tax for the third quarter of the fiscal year (\$5.1 million) exceed allocations received in the second quarter of the fiscal year (\$4.8 million) by approximately \$0.3 million. As with the Sales Tax revenue category, the General Consumer Goods (41%), Autos and Transportation (16%), and Business and Industry (13%) categories make up a majority (70%) of the driving factors in funds generated by Measure P. Based upon data from HdL

Companies, the projected year-end revenue from Measure P has been increased from \$16.3 million to \$17.9 million, an increase of approximately \$1.5 million from the Amended Budget projections. Staff will continue working with HDL over the coming quarter to refine these projections and will report back in the next quarterly financial report.

The following chart represents actual Sales Tax collections for fiscal years 2013/14 through 2016/17. The remaining chart columns display the projections from the City's Long-Term Financial Plan estimates, including projections for revenue generated by new development. The projections for the next five years have a conservative modest growth estimate of approximately 1.0% annually, compared to an historical growth average of 3.2% for the prior five years.

**SALES TAX & MEASURE P SALES TAX**



Note: Beginning with Fiscal Year 2017, Sales Tax revenue is being recorded using a 90- rather than 60-day accrual basis. As a result, the Base 1% revenue for Fiscal Year 2016/17 is inflated by the September 2016 clean up payment (\$744,000) that was accrued to Fiscal Year 2017 under the old 60-day accrual schedule.

**Property Taxes** - The City of Chula Vista receives a portion of the property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's largest revenue source, representing approximately 20% of projected General Fund revenues for Fiscal Year 2017/18. The assessed value of all property in the City of Chula

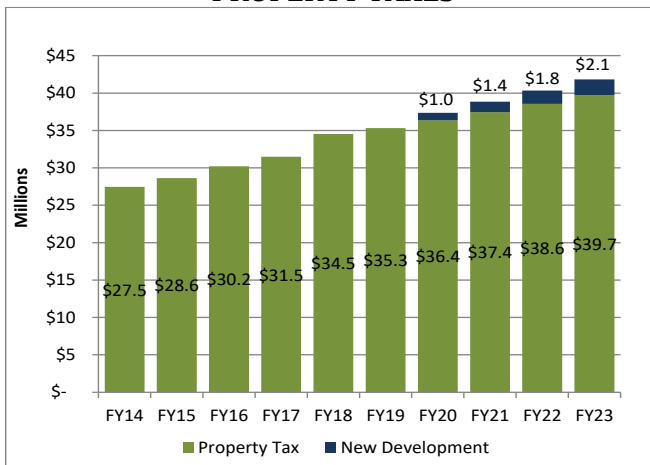
Vista is projected to grow by 6.01% in Fiscal Year 2017/18 which mirrors the average growth throughout the County of San Diego.

In its June 2017 annual report on property values, the County Assessor's office attributed the increase, the fifth year of countywide increases, to the consistent steady growth in the real estate market. With median home prices having grown annually by 5-6% for several years, the Assessor projected that this growth trend would likely continue in the near future. The City of Chula Vista's long-term financial plan, however, has been developed using growth rate of 3% for the property tax on current secured (land and improvements) and current unsecured (business equipment, boats & aircraft) property. These growth rates are more conservative but likely more reliable than relying upon a 5% and 6% growth factor.

Worth pointing out is that the Property Tax In Lieu of Motor Vehicle License Fee is actually property taxes that are redistributed to municipalities as a result of 2004 legislation. These are shown as a separate revenue category from Property Tax for comparison purposes. The growth in this revenue is based upon the growth in the City's assessed valuation. The growth rate that the City of Chula Vista experienced in Fiscal Year 2017/18 was 6.1%, compared to the budgeted estimate of a 3% growth.

The chart below shows actual Property Tax revenues since Fiscal Year 2013/14 and the projections for Fiscal Years 2017/18 through 2022/23, including projected growth associated with new development.

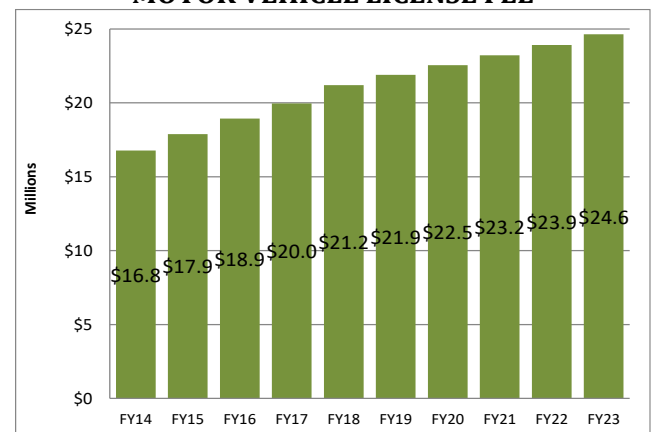
**PROPERTY TAXES**



**Motor Vehicle License Fee (MVLf)** – Since the State Budget Act of 2004, the allocation of MVLf revenues to cities and counties was substantially changed. Beginning in 2005/06, the majority of MVLf revenues for each city grew essentially in proportion to the growth in the change in gross assessed property valuation. Due to this change in the formula by the State, the majority of the City's MVLf revenues fluctuate with changes in assessed property values in the City.

The projection for MVLf revenues was revised upward \$0.3 million to \$21.2 million in the second quarter reflecting the improvement in assessed valuations. The projection remains consistent with third quarter data. The following chart represents actual MVLf revenues since Fiscal Year 2013/14 and the projection for Fiscal Years 2017/18 through 2022/23. The City projects a 3% growth rate for these revenues, which mirrors the growth rate for property taxes.

**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.

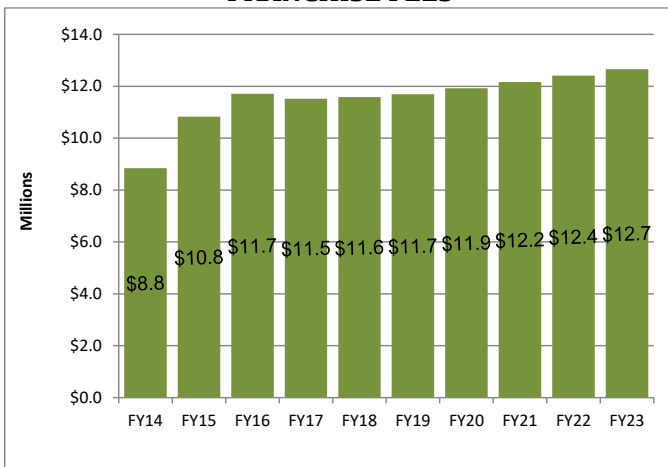
Based upon review of the most current data, while revenues from the gas & electric and trash collection



components of the franchise fees appear to be on pace to meet their Fiscal Year 2017/2018 targets, cable receipts are trending lower than originally projected. As such, the revenue projection for franchise fees is being reduced by approximately \$0.4 million, from \$12.0 million to \$11.6 million for Fiscal Year 2017/2018. Staff will continue to monitor the actual receipts from the various components that contribute to the franchisee and will provide recommendations for further adjustments if necessary.

The following chart represents actual franchise fee revenues since Fiscal Year 2013/14 and the projection for Fiscal Years 2017/18 through 2022/23. The City projects a 2% growth rate for these revenues from Fiscal Year 2018/19 to through Fiscal Year 2022/23.

**FRANCHISE FEES**



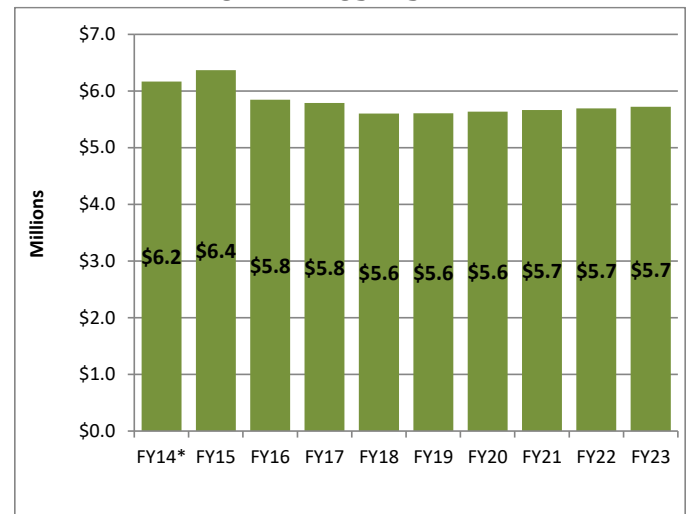
**Utility Users Tax (UUT)** - The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecom at the rate of 4.75% of gross receipts. The UUT on natural gas services is \$0.00919 per therm and \$0.00250 per kilowatt on electricity services, which equates to approximately a 1% tax.

In review of current data, the UUT revenue projections are trending similar to prior year receipts and are not anticipated to achieve the growth anticipated for Fiscal Year 2017/2018. As the UUT fees are trending lower than anticipated, the revenue

projections for Fiscal Year 2017/2018 are being reduced by approximately \$0.3 million from \$5.9 million to \$5.6 million.

The following chart reflects actual UUT revenue since Fiscal Year 2013/14 and the projection for Fiscal Years 2017/18 through 2022/23. The City projects a 1% growth rate for these revenues from Fiscal Year 2018/19 to through Fiscal Year 2022/23.

**UTILITY USERS TAX**



\*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. The amounts collected are not reflected in the table above.

**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.

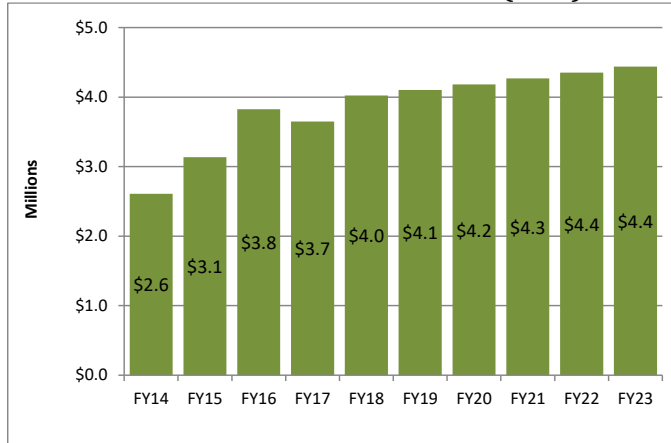
The potential for significant revenue growth is feasible provided additional hotels are built capturing the market created by the growth in the eastern section of the City. Several impending new hotel developments are being proposed in the City, primarily in the Millenia and Bayfront projects.

Fiscal year 2017/18 TOT revenues are estimated at \$4.3 million based on the previous fiscal year's growth trend and a new hotel that was opened this

fiscal year. Based on current information, TOT revenues are projected to increase over prior year actual receipts but not reach the projected growth in revenues that was originally anticipated. As such, the projected revenue for Fiscal Year 2017/2018 is being decreased by approximately \$0.3 million from \$4.3 million to \$4.0 million for the fiscal year. Staff will continue to monitor these revenues for the remainder of the fiscal year, and will update this projection as part of the year-end report.

The following chart represents actual TOT revenues since Fiscal Year 2013/14 and the projection for Fiscal Year 2017/18 through 2022/23.

**TRANSIENT OCCUPANCY TAX (TOT)**



### Expenditures

The General Fund's amended budget reflects the Council adopted budget of \$166.6 million, Council approved appropriations of \$2.9 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 \$175.2 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of March 31, 2018. In total, Departments have expended \$116.5 million or 67% of the General Fund budget after 75% of the fiscal year has elapsed. Overall, departmental expenditures are tracking consistent with the budget as of the end of the third quarter. The one exception is the Non-Departmental department which has several expenses anticipated to be recorded by year-end.

### GENERAL FUND EXPENDITURES AS OF 3/31/2018

Department	Amended Budget	Expended as of 3/31/18	% Expended
City Council	\$ 1,612,138	\$ 1,226,589	76.08%
Boards & Commissions	21,732	15,729	72.38%
City Clerk	1,025,170	658,168	64.20%
City Attorney	3,054,919	2,193,115	71.79%
Administration	2,061,997	1,686,985	81.81%
Information Technology	3,875,379	2,610,251	67.35%
Human Resources	2,816,013	2,051,844	72.86%
Finance	3,876,820	2,966,593	76.52%
Non-Departmental	28,856,604	5,149,383	17.84%
Animal Care Facility	3,013,262	2,288,535	75.95%
Economic Development	2,206,800	1,623,257	73.56%
Planning & Building	2,708,065	2,135,855	78.87%
Engineering/Capital Project	8,756,724	6,132,226	70.03%
Police	54,126,344	41,587,491	76.83%
Fire	30,742,905	24,197,812	78.71%
Public Works	18,109,276	13,598,501	75.09%
Recreation	4,493,631	3,343,962	74.42%
Library	3,857,973	3,060,879	79.34%
<b>TOTAL</b>	<b>\$ 175,215,752</b>	<b>\$ 116,527,175</b>	<b>66.50%</b>

The following table reflects the projected expenditures for June 30, 2018. The table below shows mixed results from the various departments projecting to be over- or under- budget for the fiscal year. The largest variance projected at year-end is due to the increase of \$1.5 million in transfers out for the Measure P funds which is reflected in the Non-Departmental department. At the end of the fiscal year, the Finance Department will be seeking to make transfers from other expenditure categories with projected savings and to appropriate available revenues to fully utilize resources and mitigate any departmental deficits.

### GENERAL FUND PROJECTIONS BY DEPARTMENT FOR JUNE 30, 2018

Department	Amended Budget	Proposed Budget	Variance
City Council	\$ 1,612,138	\$ 1,643,260	\$ 31,122
Boards & Commissions	21,732	16,682	\$ (5,050)
City Clerk	1,025,170	993,808	\$ (31,362)
City Attorney	3,054,919	2,885,601	\$ (169,318)
Administration	2,061,997	2,128,611	\$ 66,614
Information Technology	3,875,379	3,683,391	\$ (191,988)
Human Resources	2,816,013	2,594,921	\$ (221,092)
Finance	3,876,820	3,873,755	\$ (3,065)
Non-Departmental	28,856,604	32,759,795	\$ 3,903,191
Animal Care Facility	3,013,262	3,023,047	\$ 9,785
Economic Development	2,206,800	2,108,569	\$ (98,231)
Planning & Building	2,708,065	2,744,425	\$ 36,360
Engineering/Capital Project	8,756,724	8,401,262	\$ (355,462)
Police	54,126,344	54,320,472	\$ 194,128
Fire	30,742,905	31,807,978	\$ 1,065,073
Public Works	18,109,276	18,876,406	\$ 767,130
Recreation	4,493,631	4,533,161	\$ 39,530
Library	3,857,973	4,005,799	\$ 147,826
<b>TOTAL EXPENDITURE BUDGET</b>	<b>\$ 175,215,752</b>	<b>\$ 180,400,943</b>	<b>\$ 5,185,191</b>

<sup>3</sup>Projections include prior year appropriations totaling \$6.5 million that were carried forward into the fiscal year 2017/18 budget.

Staff will continue to monitor General Fund expenses and look for potential cost saving measures in order to support the General Fund budget.

## LONG-TERM FINANCIAL PLAN UPDATE – FISCAL YEARS 2019 TO 2023

A primary focus of this financial report is to review the Long-Term Financial Plan (LTFP) and look beyond the current fiscal year at fiscal issues facing the City on the horizon. The LTFP was originally presented with the Fiscal Year 2017/18 budget and has subsequently been updated with each quarterly monitoring report in March, May, and finally in June 2017. Changes to the LTFP from that which was presented in June 2017 include (1) modified revenue projections for property tax, sales tax, measure P sales tax, property tax in-lieu of motor vehicle license fees, franchise fees, transient occupancy tax, and utility user tax ; (2) revised personnel costs to reflect recent labor contracts; (3) updated CalPERS rates for fiscal year 2019; (4) the addition of twelve new firefighter positions authorized in August 2017; (5) new technology costs in the Police Department, and (6) the change in the estimated opening of the Millennia Fire station from 2019 to 2020. Additionally, the LTFP includes cost projections for new peace officers, the new Bayfront Fire Station and new park maintenance expenses for the Millennia Parks.

The following table displays the updated financial projections for fiscal years 2019 through 2023. A more detailed table that includes all ten years is provided as an attachment to this report.

Ten-Year Financial Forecast  
(millions)

Description	Projected FY 2018	Proposed FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023
<b>Revenues:</b>						
MAJOR DISCRETIONARY REVENUES	\$ 127.76	\$ 130.37	\$ 132.95	\$ 135.58	\$ 138.28	\$ 141.05
OTHER REVENUES	\$ 46.49	\$ 41.20	\$ 42.28	\$ 42.54	\$ 42.37	\$ 42.65
NEW DEVELOPMENT REVENUES	\$ -	\$ -	\$ 2.97	\$ 4.08	\$ 5.07	\$ 6.05
<b>TOTAL REVENUES</b>	<b>\$ 174.24</b>	<b>\$ 171.58</b>	<b>\$ 178.19</b>	<b>\$ 182.21</b>	<b>\$ 185.72</b>	<b>\$ 189.74</b>
<b>Expenditures:</b>						
PERSONNEL SERVICES EXPENDITURES	\$ 127.29	\$ 129.13	\$ 138.54	\$ 144.25	\$ 149.91	\$ 155.32
OTHER EXPENDITURES	\$ 46.62	\$ 45.43	\$ 47.87	\$ 49.36	\$ 50.86	\$ 51.80
NEW DEVELOPMENT EXPENDITURES	\$ -	\$ -	\$ 3.08	\$ 4.64	\$ 6.86	\$ 8.13
<b>TOTAL EXPENDITURES</b>	<b>\$ 173.91</b>	<b>\$ 174.56</b>	<b>\$ 189.49</b>	<b>\$ 198.26</b>	<b>\$ 207.62</b>	<b>\$ 215.24</b>
<b>TOTAL GENERAL FUND SURPLUS/(DEFICIT)</b>	<b>\$ 0.33</b>	<b>\$ (2.98)</b>	<b>\$ (11.30)</b>	<b>\$ (16.05)</b>	<b>\$ (21.90)</b>	<b>\$ (25.50)</b>
<b>SURPLUS/(DEFICIT) AS % OF BUDGET</b>	<b>0%</b>	<b>-2%</b>	<b>-6%</b>	<b>-8%</b>	<b>-11%</b>	<b>-12%</b>
<b>TOTAL FY 2018 Post-Budget Adoption Changes</b>	<b>\$ -</b>	<b>\$ 2.98</b>	<b>\$ 1.43</b>	<b>\$ 2.25</b>	<b>\$ 2.19</b>	<b>\$ 4.24</b>
<b>SURPLUS/(DEFICIT) WITH ADMINISTRATIVE ACTIONS</b>	<b>\$ 0.33</b>	<b>\$ (0.00)</b>	<b>\$ (9.87)</b>	<b>\$ (13.80)</b>	<b>\$ (19.71)</b>	<b>\$ (21.26)</b>

## Fiscal Year 2019 Budget Balancing

The purpose of this review is to highlight the structural imbalances that the City will face next fiscal year, and to focus problem solving efforts toward a menu of viable options. These projections will continue to evolve as new information becomes available. The projections within this report assume continued economic growth. Even a small or short-lived economic downturn will amplify the projected deficits shown in the LTFP. These projections do not assume the passage or potential impact of any future tax measures that may be considered by the City.

For Fiscal Year 2018/2019, the projection is the General Fund will be fiscally 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 resources. The City does anticipate using several one-time revenue sources such as an interfund loan repayment from the PFDIF fund (approximately \$1.5 million) to obtain a balanced budget for Fiscal Year 2018/2019. As of the most current projections, one-time revenues are expected to address certain ongoing expenses, which create a structural imbalance. The projected structural imbalance for Fiscal Year 2018/2019 is approximately \$2.5 million.

While no revenue shortfall is anticipated for Fiscal Year 2018/2019, the current LTFP projects budget fiscal deficits beginning in FY 2020. Assuming no additional financial measures or policy changes to either increase revenues or reduce expenditures, Fiscal Year 2019/2020 projects a revenue shortfall of \$9.9 million, growing to a deficit of \$21.3 in Fiscal Year 2022/2023 and \$40.2 million in Fiscal Year 2027/2028 (the last year of the LTFP).

As shown in the previous table, the LTFP projects the average revenue growth rate to be approximately 1.7% per year from Fiscal Year 2018/2019 to Fiscal Year 2022/2023, while expenditures are anticipated to grow at an annual rate of approximately 4.4% per year over the same time period. Beginning in Fiscal Year 2020, the annual deficit begins to be compounded on an annual basis, further highlighting the imbalance between revenue growth and expenditure growth.



For revenues, additional revenue sources or increasing growth in existing revenue sources will be needed. The City of Chula Vista continues to pursue development opportunities that have the potential to positively impact revenue for the City. These include the development of the Eastern Urban Center (Millenia) and the approval of the Bayfront Development Project. However, these large developments are still several years away from being built and occupied.

address economic development opportunities throughout the City.

For expenditures, the most significant drivers of the long-term grow in expenses are related to the increase in public safety costs and the increasing costs associated with public employee salaries and benefits. Examples of the increased ongoing personnel expenses include the twelve additional firefighter positions added in Fiscal Year 2017/2018 and the five peace officers planned to be funded or added on an annual basis.

The City's options for addressing the anticipated shortfalls will require new revenues, cost cutting, and/or cost deferments. Staff will continue to evaluate potential avenues to address the projected shortfalls and will present potential options to the City Manager and City Council in Fiscal Year 2018/2019 for discussion.

#### **SUMMARY AND NEXT STEPS**

At the conclusion of the third fiscal year quarter of 2017-18, the current year budget is on track for revenues to slightly outpace expenditures. Staff is watching expenditures and revenue projections, particularly TOT projections, to assess whether further modifications will be necessary later in the year.

The longer-term projections for the City's General Fund continue to pose serious challenges, because revenues will not be sufficient to cover current costs or new costs that are on the horizon. Because the City has limited abilities to impact near-term revenue, its staff and policy makers will need to focus their efforts on the cost side by finding savings, modifying service levels, cost cuts or cost delays for the upcoming year, even as efforts continue to



# Quarterly Financial Report

## Third Quarter FY 2018 Ending March 31, 2018

Prepared – April 2018

### Ten-Year Financial Forecast

Description	Proposed FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026	Forecast FY 2027	Forecast FY 2028
<b>Revenue Projections (millions)</b>										
Property Taxes	\$ 35.30	\$ 36.36	\$ 37.45	\$ 38.57	\$ 39.72	\$ 40.91	\$ 42.13	\$ 43.39	\$ 44.69	\$ 46.03
Sales Tax	\$ 33.70	\$ 34.04	\$ 34.38	\$ 34.72	\$ 35.07	\$ 35.42	\$ 35.77	\$ 36.13	\$ 36.49	\$ 36.86
Measure P Sales Tax	\$ 18.09	\$ 18.27	\$ 18.45	\$ 18.63	\$ 18.82	\$ 19.01	\$ 19.20	\$ 19.39	\$ 14.69	\$ -
Franchise Fees	\$ 11.69	\$ 11.93	\$ 12.16	\$ 12.41	\$ 12.66	\$ 12.91	\$ 13.17	\$ 13.43	\$ 13.70	\$ 13.97
Utility Users Taxes	\$ 5.61	\$ 5.63	\$ 5.66	\$ 5.69	\$ 5.72	\$ 5.75	\$ 5.78	\$ 5.81	\$ 5.83	\$ 5.86
Transient Occupancy Taxes	\$ 4.10	\$ 4.19	\$ 4.27	\$ 4.35	\$ 4.44	\$ 4.53	\$ 4.62	\$ 4.71	\$ 4.81	\$ 4.90
Motor Vehicle License Fees	\$ 21.89	\$ 22.54	\$ 23.22	\$ 23.92	\$ 24.63	\$ 25.37	\$ 26.13	\$ 26.92	\$ 27.73	\$ 28.56
<b>SUBTOTAL MAJOR DISCRETIONARY REVENUES</b>	<b>\$ 130.37</b>	<b>\$ 132.95</b>	<b>\$ 135.58</b>	<b>\$ 138.28</b>	<b>\$ 141.05</b>	<b>\$ 143.89</b>	<b>\$ 146.80</b>	<b>\$ 149.77</b>	<b>\$ 147.93</b>	<b>\$ 136.18</b>
Development Revenue	\$ 0.45	\$ 1.26	\$ 1.26	\$ 1.27	\$ 1.28	\$ 1.28	\$ 1.29	\$ 1.30	\$ 1.30	\$ 1.31
Licenses and Permits	\$ 1.45	\$ 1.48	\$ 1.51	\$ 1.54	\$ 1.57	\$ 1.60	\$ 1.63	\$ 1.66	\$ 1.70	\$ 1.73
Fines, Forfeitures & Penalties	\$ 1.24	\$ 1.27	\$ 1.29	\$ 1.32	\$ 1.34	\$ 1.37	\$ 1.40	\$ 1.43	\$ 1.46	\$ 1.48
Use of Money and Property	\$ 2.15	\$ 2.18	\$ 2.20	\$ 2.22	\$ 2.24	\$ 2.26	\$ 2.29	\$ 2.31	\$ 2.33	\$ 2.36
Other Local Taxes	\$ 2.60	\$ 2.62	\$ 2.65	\$ 2.68	\$ 2.70	\$ 2.73	\$ 2.76	\$ 2.79	\$ 2.81	\$ 2.84
Police Grants	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84
Other Agency Revenue	\$ 2.25	\$ 2.27	\$ 2.30	\$ 2.32	\$ 2.34	\$ 2.36	\$ 2.39	\$ 2.41	\$ 2.44	\$ 2.46
Charges for Services	\$ 7.32	\$ 7.36	\$ 7.39	\$ 7.43	\$ 7.47	\$ 7.50	\$ 7.54	\$ 7.58	\$ 7.62	\$ 7.65
Interfund Reimbursements	\$ 8.15	\$ 9.74	\$ 9.83	\$ 9.49	\$ 9.58	\$ 9.68	\$ 9.77	\$ 9.87	\$ 9.97	\$ 10.07
Other Revenues - Miscellaneous	\$ 1.07	\$ 1.07	\$ 1.08	\$ 1.08	\$ 1.09	\$ 1.09	\$ 1.10	\$ 1.10	\$ 1.11	\$ 1.12
Transfers From Other Funds	\$ 13.70	\$ 12.20	\$ 12.20	\$ 12.20	\$ 12.20	\$ 12.20	\$ 12.20	\$ 12.20	\$ 12.20	\$ 12.20
<b>SUBTOTAL OTHER REVENUES</b>	<b>\$ 41.20</b>	<b>\$ 42.28</b>	<b>\$ 42.54</b>	<b>\$ 42.37</b>	<b>\$ 42.65</b>	<b>\$ 42.92</b>	<b>\$ 43.20</b>	<b>\$ 43.48</b>	<b>\$ 43.77</b>	<b>\$ 44.06</b>
<b>NEW DEVELOPMENT REVENUES</b>										
<i>Property Taxes</i>	\$ -	\$ 1.01	\$ 1.41	\$ 1.76	\$ 2.10	\$ 2.46	\$ 2.79	\$ 3.19	\$ 3.37	\$ 3.37
<i>Sales Tax</i>	\$ -	\$ 0.32	\$ 0.45	\$ 0.59	\$ 0.74	\$ 0.85	\$ 0.96	\$ 1.06	\$ 1.16	\$ 1.17
<i>Franchise Fees</i>	\$ -	\$ 0.28	\$ 0.36	\$ 0.45	\$ 0.54	\$ 0.63	\$ 0.72	\$ 0.80	\$ 0.88	\$ 0.90
<i>Utility Users Taxes</i>	\$ -	\$ 0.10	\$ 0.14	\$ 0.17	\$ 0.20	\$ 0.23	\$ 0.26	\$ 0.29	\$ 0.29	\$ 0.29
<i>Motor Vehicle License Fees</i>	\$ -	\$ 0.70	\$ 0.97	\$ 1.21	\$ 1.45	\$ 1.69	\$ 1.92	\$ 2.20	\$ 2.32	\$ 2.39
<i>Other Revenues - Miscellaneous</i>	\$ -	\$ 0.38	\$ 0.50	\$ 0.62	\$ 0.74	\$ 0.86	\$ 0.98	\$ 1.06	\$ 1.16	\$ 1.17
<i>Other Local Taxes</i>	\$ -	\$ 0.19	\$ 0.26	\$ 0.26	\$ 0.28	\$ 0.31	\$ 0.33	\$ 0.35	\$ 0.30	\$ 0.30
<b>SUBTOTAL NEW DEVELOPMENT REVENUES</b>	<b>\$ -</b>	<b>\$ 2.97</b>	<b>\$ 4.08</b>	<b>\$ 5.07</b>	<b>\$ 6.05</b>	<b>\$ 7.02</b>	<b>\$ 7.95</b>	<b>\$ 8.94</b>	<b>\$ 9.48</b>	<b>\$ 9.60</b>
<b>TOTAL REVENUES</b>	<b>\$ 171.58</b>	<b>\$ 178.19</b>	<b>\$ 182.21</b>	<b>\$ 185.72</b>	<b>\$ 189.74</b>	<b>\$ 193.83</b>	<b>\$ 197.95</b>	<b>\$ 202.19</b>	<b>\$ 201.18</b>	<b>\$ 189.83</b>
<b>Expenditure Projections (millions)</b>										
Personnel Services	\$ 88.01	\$ 92.42	\$ 94.17	\$ 95.97	\$ 97.80	\$ 99.66	\$ 101.57	\$ 103.51	\$ 105.50	\$ 107.52
PERS	\$ 27.59	\$ 31.68	\$ 35.59	\$ 38.89	\$ 41.90	\$ 44.17	\$ 46.19	\$ 48.31	\$ 50.53	\$ 52.86
Flex/Insurance	\$ 13.53	\$ 13.61	\$ 13.66	\$ 14.21	\$ 14.79	\$ 15.40	\$ 16.03	\$ 16.69	\$ 17.38	\$ 18.11
Salary Savings (On Going)	\$ -	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84	\$ 0.84
<b>SUBTOTAL PERSONNEL SERVICES EXPENDITURES</b>	<b>\$ 129.13</b>	<b>\$ 138.54</b>	<b>\$ 144.25</b>	<b>\$ 149.91</b>	<b>\$ 155.32</b>	<b>\$ 160.06</b>	<b>\$ 164.63</b>	<b>\$ 169.35</b>	<b>\$ 174.25</b>	<b>\$ 179.32</b>
Supplies and Services	\$ 12.37	\$ 13.36	\$ 14.43	\$ 15.44	\$ 15.75	\$ 16.07	\$ 16.39	\$ 16.72	\$ 17.05	\$ 17.39
Utilities	\$ 5.07	\$ 5.32	\$ 5.59	\$ 5.86	\$ 6.16	\$ 6.47	\$ 6.79	\$ 7.13	\$ 7.48	\$ 7.86
Other Expenses	\$ 0.70	\$ 0.71	\$ 0.72	\$ 0.74	\$ 0.75	\$ 0.77	\$ 0.78	\$ 0.80	\$ 0.82	\$ 0.83
Equipment (Capital not CIP)	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22
Internal Services	\$ 2.96	\$ 3.02	\$ 3.08	\$ 3.14	\$ 3.20	\$ 3.26	\$ 3.33	\$ 3.40	\$ 3.46	\$ 3.53
Transfers/Debt Service	\$ 24.12	\$ 25.24	\$ 25.33	\$ 25.45	\$ 25.72	\$ 25.89	\$ 26.06	\$ 26.24	\$ 21.29	\$ 6.70
<b>SUBTOTAL OTHER EXPENDITURES</b>	<b>\$ 45.43</b>	<b>\$ 47.87</b>	<b>\$ 49.36</b>	<b>\$ 50.86</b>	<b>\$ 51.80</b>	<b>\$ 52.68</b>	<b>\$ 53.57</b>	<b>\$ 54.50</b>	<b>\$ 50.33</b>	<b>\$ 36.53</b>
<b>NEW PROGRAMS &amp; NEW DEVELOPMENT EXPENDITURES</b>										
<i>12 new firefighters with 3 yr SAFER grant offset</i>	\$ -	\$ 1.03	\$ 1.63	\$ 2.17	\$ 2.28	\$ 2.39	\$ 2.50	\$ 2.61	\$ 2.73	\$ 2.82
<i>4.0 Truck Staffing for Bayfront</i>	\$ -	\$ -	\$ -	\$ 0.48	\$ 0.51	\$ 0.53	\$ 0.56	\$ 0.58	\$ 0.61	\$ 0.63
<i>Peace Officer Funding</i>	\$ -	\$ 1.63	\$ 2.58	\$ 3.62	\$ 4.75	\$ 5.96	\$ 7.28	\$ 8.67	\$ 10.19	\$ 11.68
<i>New Police Technology</i>	\$ -	\$ 0.19	\$ 0.20	\$ 0.19	\$ 0.19	\$ 0.20	\$ 0.20	\$ 0.22	\$ 0.21	\$ 0.21
<i>Millenia Parks Maintenance</i>	\$ -	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.08
<i>Fire Station Supplies and Services</i>	\$ -	\$ 0.16	\$ 0.16	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32
<b>SUBTOTAL NEW DEVELOPMENT EXPENDITURES</b>	<b>\$ -</b>	<b>\$ 3.08</b>	<b>\$ 4.64</b>	<b>\$ 6.86</b>	<b>\$ 8.13</b>	<b>\$ 9.46</b>	<b>\$ 10.94</b>	<b>\$ 12.47</b>	<b>\$ 14.12</b>	<b>\$ 15.74</b>
<b>TOTAL EXPENDITURES</b>	<b>\$ 174.56</b>	<b>\$ 189.49</b>	<b>\$ 198.26</b>	<b>\$ 207.62</b>	<b>\$ 215.24</b>	<b>\$ 222.21</b>	<b>\$ 229.13</b>	<b>\$ 236.32</b>	<b>\$ 238.70</b>	<b>\$ 231.60</b>
<b>TOTAL GENERAL FUND SURPLUS/(DEFICIT)</b>	<b>\$ (2.98)</b>	<b>\$ (11.30)</b>	<b>\$ (16.05)</b>	<b>\$ (21.90)</b>	<b>\$ (25.50)</b>	<b>\$ (28.38)</b>	<b>\$ (31.19)</b>	<b>\$ (34.13)</b>	<b>\$ (37.52)</b>	<b>\$ (41.77)</b>
<b>SURPLUS/(DEFICIT) AS % OF BUDGET</b>	<b>-2%</b>	<b>-6%</b>	<b>-8%</b>	<b>-11%</b>	<b>-12%</b>	<b>-13%</b>	<b>-14%</b>	<b>-14%</b>	<b>-16%</b>	<b>-18%</b>
<b>FY 2018 Post-Budget Adoption Changes</b>										
Utility Savings through Measure P Projects	\$ -	\$ 0.83	\$ 1.65	\$ 1.65	\$ 1.65	\$ 1.65	\$ 1.65	\$ 1.65	\$ 1.65	\$ 1.65
Utility Savings through Renewable solar bonds	\$ 0.28	\$ 0.28	\$ 0.30	\$ 0.33	\$ 0.34	\$ 0.32	\$ 0.33	\$ 0.34	\$ 0.35	\$ 0.35
Additional Salary Savings	\$ 0.90	\$ 0.92	\$ 0.94	\$ 0.96	\$ 0.97	\$ 0.99	\$ 1.01	\$ 1.03	\$ 1.05	\$ 1.08
Bayfront Project Commitment	\$ (1.30)	\$ (1.59)	\$ (1.64)	\$ (1.74)	\$ 0.28	\$ 0.17	\$ 0.51	\$ 0.71	\$ 0.70	\$ 0.70
Development Fee Revenue	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80
Interest Earning	\$ 0.80	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20	\$ 0.20
PFDF Loan Repayment	\$ 1.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL FY 2018 Post-Budget Adoption Changes</b>	<b>\$ 2.98</b>	<b>\$ 1.43</b>	<b>\$ 2.25</b>	<b>\$ 2.19</b>	<b>\$ 4.24</b>	<b>\$ 4.13</b>	<b>\$ 4.50</b>	<b>\$ 4.73</b>	<b>\$ 4.75</b>	<b>\$ 4.77</b>
<b>SURPLUS/(DEFICIT) WITH ADMINISTRATIVE ACTIONS</b>	<b>\$ (0.00)</b>	<b>\$ (9.87)</b>	<b>\$ (13.80)</b>	<b>\$ (19.71)</b>	<b>\$ (21.26)</b>	<b>\$ (24.25)</b>	<b>\$ (26.69)</b>	<b>\$ (29.40)</b>	<b>\$ (32.77)</b>	<b>\$ (37.00)</b>