



In addition to the Fiscal Year 2017/18 budget recommendations for City funds, this report includes: an update on Measure P actual revenues and expenditures as of March 31, 2018, and an update to the Long Term Financial Plan (LTFP) which covers Fiscal Years 2019 to 2028. These recommendations reflect all Council approved items since the adoption of the Fiscal Year 2017/18 budget in June.

## **ENVIRONMENTAL REVIEW**

### **Environmental Notice**

The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

### **Environmental Determination**

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

## **BOARD/COMMISSION RECOMMENDATION**

Not applicable.

## **DISCUSSION**

The Finance Department, in collaboration with City departments, prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes. The quarterly financial reports are in compliance with Section 504 (f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

The Third Quarter Report is developed using nine months of recorded (July 2017 through March 2018) activity for Fiscal Year 2017/2018 as of March 31, 2018. The data in this report is the most current data available; however, the data and projections are subject to change.

This report will provide summary information for the following areas:

- Major General Fund Revenues
- Adjustments to General Fund Expenditures
- Update to the General Fund Reserve
- Adjustments to non-General Fund funds
- Update to the Measure P Fund
- Update to the LTFP

Attachment A - Quarterly Financial Report provides additional information on the financial outlook for the General Fund for the current fiscal year including City revenues and expenditures. Additional information related to Measure P and the LTFP is also provided.

The Finance Department will continue to monitor the City's actual revenues and expenditures and will provide any significant changes in subsequent quarterly budget monitoring reports.

## General Fund Overview

The City's financial outlook has improved from the Second Quarter Monitoring report due to updated revenue projections for property related taxes, sales taxes, and interfund reimbursements. However, the projected increase in the aforementioned revenue categories is partially offset by reduced revenue projections within the franchise fees, transient occupancy tax, and utility user tax categories. In addition to the projected reduced revenue projections for the several noted categories, additional transfers, expenditures, and encumbrances have been identified for the General Fund in the Third Quarter of Fiscal Year 2017/2018.

Based upon current projections, General Fund revenues are anticipated to slightly exceed General Fund expenditures for Fiscal Year 2017/2018. General Fund revenues are anticipated to exceed General Fund expenditures by approximately \$0.3 million for Fiscal Year 2017/2018. This represents a change from the previously projected revenue shortfall of approximately \$0.4 million in the Second Quarter Monitoring Report. Staff will closely monitor actual revenue and expenditures throughout the end of the fiscal year to ensure a balance year-end budget and continue to evaluate remedies to potentially address ongoing structural budget imbalances. Additional information on General Fund revenue and expenditures are provided in the following sections.

## Major General Fund Revenues

The City's major General Fund revenues, which make up approximately 73% of the City's General Fund revenues, are projected to be over the Amended Budget amount by approximately \$1.9 million. This is a result of mixed projections within the Major revenue categories. Property Tax, Sales Tax, Measure P Sales Tax, and property tax collected in lieu of the previously collected Motor Vehicle License Fees (MVLFF) are projected to collectively increase by approximately \$2.8 million. Property related revenues are being realized at a higher rate than originally projected and an uptick in consumer confidence and employment projections are supporting the increase in collected sales tax.

However, revenue projections for the Franchise Fees, Transient Occupancy Tax, and Utility User Tax categories are being reduced by a collective amount of \$0.9 million. These revenues are being impacted by lower than anticipated cable receipts and increased competition within the hospitality sector. The hospitality sector (hotel/motel) is projected to have higher year over year receipts but the growth in this sector is not anticipated to reach the original revenue projections. Table 1: Fiscal Year 2017/2018 Major General Fund Revenue Projections shows the impact to the individual revenue categories and summarizes the revenue projections.

It should be noted that the increase in Measure P Sales Tax revenue will result in a corresponding transfer out of the General Fund to the Measure P Sales Tax Fund. Excluding the increase in revenue projected for the Measure P Sales Tax of \$1.5 million, the resulting net increase from the Major Revenues is approximately \$0.4 million over the Amended Budget.

**Table 1 - Fiscal Year 2017/2018 Major General Fund Revenue Projections**

Revenue Category	Amended Budget	Projected Budget	Increase / (Decrease)
Property Tax	\$ 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	\$ 11,968,646	\$ 11,580,293	\$ (388,353)
Utility Users Taxes	\$ 5,860,328	\$ 5,602,595	\$ (257,733)
Transient Occupancy Tax	\$ 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
<b>Total</b>	<b>\$ 125,865,568</b>	<b>\$ 127,756,793</b>	<b>\$ 1,891,225</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 remaining General Fund revenues (not represented in Table 1) are anticipated to exceed the Amended Budget by approximately \$3.6 million. The increased revenue projections are primarily due to: 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.

The remaining General Fund revenues are anticipated to meet or slightly exceed their projected revenue estimates. All the General Fund revenues are summarized in Attachment A. The overall General Fund revenues are projected to exceed the Amended Budget by approximately \$5.5 million or \$4.0 million when you net out the increase in Measure P Sales Tax revenues.

**General Fund Expenditure Adjustments**

For the third quarter, there are minor proposed budget amendments to the General Fund. The amendments are anticipated to result in a net reduction of General Fund costs of approximately \$22,600. The majority of the proposed adjustments for the third quarter are inter- or intra-Department transfers, and new expenditure appropriations with offsetting revenue. There is no net cost from the proposed General Fund transfers or new appropriations. Table 2: Fiscal Year 2017/2018 General Fund Expenditure Adjustments illustrates all the proposed adjustments and transfers for the General Fund.

**Table 2  
Budget Amendment Summary - 3rd Quarter Fiscal Year 2017-18**

DEPARTMENT/FUND	SUPPLIES & SERVICES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
<b>GENERAL FUND</b>				
Non-Departmental <sup>1</sup>	(24,067)	\$ (24,067)	\$ 5,000	\$ (29,067)
Fire Department <sup>2</sup>		-	(6,500)	6,500
<b>TOTAL OTHER FUNDS</b>	<b>\$ (24,067)</b>	<b>\$ (24,067)</b>	<b>\$ (1,500)</b>	<b>\$ (22,567)</b>

1. Appropriate revenue and corresponding expense of \$5,000 from closure of Fund 235 to the General Fund; Appropriate Transfer to Fund 346 and Fund 347.

2. Decrease Fire Department revenues due to the loss of the Army Corps of Engineer Lease Agreement.

**Budget Transfers Summary - 3rd Quarter Fiscal Year 2017-18**

DEPARTMENT/FUND	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	CIP BUDGET	NON-CIP BUDGET	TRANSFERS OUT	TOTAL EXPENSE	TOTAL REVENUE	NET COST
<b>GENERAL FUND</b>									
Non-Departmental		32,384	99,413	(1,171,797)	(230,752)	1,404,429	\$ 133,677	\$ -	\$ 133,677
Public Works Department	(27,000)	36,867	-	-	-	40,133	50,000	50,000	-
Finance Department	40,000	(40,000)	-	-	-	-	-	-	-
Engineering/Capital Projects		(1,881)	-	-	-	-	(1,881)	-	(1,881)
Recreation Department	(48,484)	48,484	(131,796)	-	-	-	(131,796)	-	(131,796)
<b>TOTAL OTHER FUNDS</b>	<b>\$ (35,484)</b>	<b>\$ 75,854</b>	<b>\$ (32,383)</b>	<b>\$ (1,171,797)</b>	<b>\$ (230,752)</b>	<b>\$ 1,444,562</b>	<b>\$ 50,000</b>	<b>\$ 50,000</b>	<b>\$ -</b>

As shown in the previous tables, the proposed adjustments to the General Fund for the third quarter slightly reduced the projected net costs. The proposed adjustments are to address known changes to impact the Fiscal Year 2017/2018 budget.

Overall for the year-end, the various General Fund departments are projecting a mixed result of over- and under- budget as compared to the Amended Budget. These projections are shown by department in Attachment A. As of the third quarter, General Fund expenditures are projected to exceed the Amended Budget by approximately \$5.2 million. The largest contributors to the increase expenditures include the corresponding transfer out of \$1.5 million in Measure P funds, transfer out of approximately \$1.4 million to capital project 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.

Based on third quarter projections, the General Fund revenues are anticipated to exceed General Fund expenditures by approximately \$0.3 million for Fiscal Year 2017/2018. 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.

**Other Funds Adjustments**

The following recommended adjustments are for funds outside of the General Fund. The proposed adjustments, displayed in Table 3, have a net reduction in costs of approximately \$1.1 million to the various identified funds. The proposed adjustments are to impact the fund balances or current year available revenues of the respective noted funds.

**Table 3**  
**Budget Amendment Summary - 3rd Quarter Fiscal Year 2017-18**

FUND	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	OTHER CAPITAL	CIP BUDGET	NON-CIP BUDGET	TRANSFERS OUT	TOTAL EXPENSE	TOTAL REVENUE	NET COST
<b>OTHER FUNDS</b>										
2016 Measure P Sales Tax Fund <sup>1</sup>		19,213	-	488,989				\$ 508,202	\$ -	\$ 508,202
Transportation Grants-Gas Tax Fund <sup>2</sup>								-	1,832,557	(1,832,557)
Utility Tax Settlement Fund <sup>2</sup>		89,824						89,824		89,824
Legislative Counsel Fund <sup>4</sup>		(5,000)					5,000	-	-	-
Asset Seizure Fund <sup>5</sup>		(124,952)						(124,952)	(30,000)	(94,952)
Other Grants Fund <sup>6</sup>		(330,500)	333,000	(2,500)				-		-
Local Grants Fund <sup>7</sup>		124,952						124,952	30,000	94,952
Federal Grants Fund <sup>8</sup>		5,000	(5,000)					-	(3,432)	3,432
State Grants Fund <sup>9</sup>	10,376							10,376	10,376	-
CFD 14MA-EUC Millenia Fund <sup>10</sup>		(2,990)					69,200	66,210		66,210
CFD 14MB-EUC Millenia Fund <sup>11</sup>		26,940	14,800					41,740	69,200	(27,460)
CV Elite Athlete Training Ctr Fund <sup>12</sup>		1,000	(1,000)					-		-
Public Facilities DIF <sup>13</sup>		5,500		55,765				61,265		61,265
Transportation DIF <sup>14</sup>								-	28,110	(28,110)
Capital Improvement Projects <sup>15</sup>					1,171,797	230,751		1,402,548	1,402,548	-
Other Transportation Program <sup>16</sup>							28,110	28,110	(1,881)	29,991
<b>TOTAL OTHER FUNDS</b>	<b>\$ 10,376</b>	<b>\$ (191,013)</b>	<b>\$ 341,800</b>	<b>\$ 542,254</b>	<b>\$ 1,171,797</b>	<b>\$ 230,751</b>	<b>\$ 102,310</b>	<b>\$ 2,208,275</b>	<b>\$ 3,337,478</b>	<b>\$ (1,129,203)</b>

1. Allocation of prior year budgets that were not rolled over into FY 2018.
2. Appropriation of the SB1 funding in FY 2018.
3. Appropriation of remaining fund balance for the Library Project.
4. Closing out of the Legislative Fund, and transferring remaining budget into the General Fund.
5. Reallocation of the Asset Seizure fund.
6. SDG&E Grant budget reallocation.
7. Reallocation of the Asset Seizure fund.
8. Reduction of the Grant Revenue allocation for the Police Department Grants by \$3,432. Reallocation of the the SBCS Contract from Supplies & Services to Other Expenses.
9. Budget of additional grant revenues and corresponding expenses.
10. CFD Adjustments and transfer-in from the General Fund.
11. CFD Adjustments and transfer-in from the General Fund.
12. Elite Training Center budget cleanup.
13. Appropriating PFDIF fund balance appropriations for equipment purchases.
14. Appropriate Transfer from Fund 738 to Fund 590 of \$28,110.
15. Transfer CIPs from Fund 100 to Fund 713
16. Appropriate Transfer from Fund 738 to Fund 590 of \$28,110.

### Measure P Fund Overview

In November 2016, Chula Vista voters approved Measure P, authorizing a ½ cent sales tax increase on retail sales within the City for ten years. The funding from the sales tax measure is to allow the City to make progress toward replacing and repairing failing City assets. In December 2016, the City Council adopted the expenditure plan for the Measure P funding. The expenditure plan identified critical deferred maintenance and infrastructure projects for which the Measure P funding was to be allocated toward.

The following table provides an update on the allocation and expenditures (unaudited) for the Measure P funds.

**Table 4**  
**Measure P**  
**Citywide Infrastructure, Facilities and Equipment Expenditure Plan**  
**1/2 cent Sales Tax Revenues over 10 year period**  
**Summary Table**

Total by Major Category	10-Year Timeframe*	Expend As Of 03/31/2018	Remaining Balance
<b>Fire Services</b>			
Fire Stations Repairs/Replacement	\$ 22,839,549	\$ 12,761	\$ 22,826,788
Fire Response Vehicles	\$ 19,847,580	\$ 2,601,583	\$ 17,245,997
Fire Safety Equipment	\$ 5,197,913	\$ 257,499	\$ 4,940,414
<b>Total Fire Services</b>	<b>\$ 47,885,042</b>	<b>\$ 2,871,843</b>	<b>\$ 45,013,199</b>
<b>Police Services</b>			
Police Response Vehicles	\$ 12,951,470	\$ 1,485,432	\$ 11,466,038
Public Safety Communication Systems	\$ 8,624,832	\$ 1,707,966	\$ 6,916,866
Police Facility Repairs	\$ 1,509,000	\$ 95,916	\$ 1,413,084
<b>Total Police Services</b>	<b>\$ 23,085,302</b>	<b>\$ 3,289,315</b>	<b>\$ 19,795,988</b>
<b>Infrastructure</b>			
Streets	\$ 24,474,861	\$ 340,555	\$ 24,134,306
Other Public Infrastructure	\$ 14,154,295	\$ 87,156	\$ 14,067,139
Sports Fields and Courts	\$ 16,966,595	\$ 117,278	\$ 16,849,317
Non-Safety Vehicles	\$ 11,195,100	\$ 494,685	\$ 10,700,415
Public Facilities	\$ 13,100,000	\$ 261,452	\$ 12,838,548
Traffic Signal Systems	\$ 7,000,000	\$ 64,377	\$ 6,935,623
Park Infrastructure	\$ 7,682,740	\$ -	\$ 7,682,740
Citywide Network Replacement	\$ 2,045,000	\$ 1,037,434	\$ 1,007,566
Citywide Telecommunications	\$ 2,000,000	\$ 1,191,091	\$ 808,909
<b>Total Infrastructure</b>	<b>\$ 98,618,591</b>	<b>\$ 3,594,028</b>	<b>\$ 95,024,563</b>
<b>Total Proposed Allocations</b>	<b>\$ 169,588,935</b>	<b>\$ 9,755,186</b>	<b>\$ 159,833,749</b>
<b>Administrative Expenses</b>			
Audit Fees	\$ -	\$ 5,000	\$ (5,000)
Bond Sale Expenses	\$ -	\$ 46,843	\$ (46,843)
Cost of Issuance	\$ 563,210	\$ 553,023	\$ 10,187
Annual Debt Service Payments	\$ 78,234,834	\$ -	\$ 78,234,834
<b>Total Administrative Expenses</b>	<b>\$ 78,798,044</b>	<b>\$ 604,866</b>	<b>\$ 78,193,178</b>
<b>City Staff Time</b>			
City Staff Time	\$ -	\$ 298,816	\$ (298,816)
<b>Total City Staff Time Expenses</b>	<b>\$ -</b>	<b>\$ 298,816</b>	<b>\$ (298,816)</b>
<b>Total Expenditures</b>	<b>\$ 248,386,979</b>	<b>\$ 10,658,868</b>	<b>\$ 237,728,111</b>

\*Amounts include proceeds from Chula Vista Municipal Financing Authority 2017 Lease Revenue Bonds.

**DECISION-MAKER CONFLICT**

Staff has reviewed the property holdings of the City Council of the City of Chula Vista members and has found no property holdings within 500 feet of the boundaries of the property which is the subject of this action. Consequently, this item does not present a disqualifying real property-related financial conflict of interest under California Code of Regulations Title 2, section 18702.2(a)(11), for purposes of the Political Reform Act (Cal. Gov't Code §87100, et seq.).

Staff is not independently aware, and has not been informed by any City of Chula Vista City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

**LINK TO STRATEGIC GOALS**

The City's Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. This action supports

the Operational Excellence goal by communicating the City’s projected financial position for the current fiscal year in an open and transparent manner. This transparency supports City Initiative 1.3.1. - “Foster public trust through an open and ethical government.”

**CURRENT YEAR FISCAL IMPACT**

The Third Quarter Monitoring Report presents revised revenue and expenditure projections as of March 31, 2018. Overall, the General Fund revenues are projected to exceed projected expenditures by approximately \$0.3 million. While overall revenues are projected to increase by \$5.5 million, approximately \$1.5 million are related to an increase of funding generated by the Measure P Sales tax. These funds will be transferred to the Measure P Fund, and has no impact to the General Fund operating budget. The remaining projected increases in revenues are primarily related to increases in property tax, sales tax, and other non-major revenue categories. Projected increases of \$5.2 million to expenditures are primarily driven by costs related to the additional staff and increased transfers out of the General Fund (Measure P Sales Tax). Staff will continue to monitor actual revenue receipts and expenditures to determine if any budget adjustments will be needed in the future.

**ONGOING FISCAL IMPACT**

There is no ongoing fiscal impact related to this action for the General Fund.

The 2017 Measure P Revenue Bonds will have ongoing debt service costs of \$8.4 million per year, which is approximately half of the annual projected revenue.

The impacts related to actions approved by Council since the adoption of the budget in June 2017 are reflected in the Long Term Financial Plan section of the attached quarterly report.

Ten-Year Financial Forecast  
(millions)

Description	Proposed FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023
<b>Revenues:</b>					
MAJOR DISCRETIONARY REVENUES	\$ 130.37	\$ 132.95	\$ 135.58	\$ 138.28	\$ 141.05
OTHER REVENUES	\$ 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>\$ 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	\$ 129.13	\$ 138.54	\$ 144.25	\$ 149.91	\$ 155.32
OTHER EXPENDITURES	\$ 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>\$ 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>\$ (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>-2%</b>	<b>-6%</b>	<b>-8%</b>	<b>-11%</b>	<b>-12%</b>
<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>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>

## ATTACHMENTS

1. FY2018 Third Quarter Financial Report

*Staff Contact: David Bilby, Finance Department*