



# City of Chula Vista

## Staff Report

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**File#:** 17-0022, **Item#:** 7.

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A. QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDING DECEMBER 31, 2016

B. RESOLUTION NO. 2017-028 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2016/2017 BUDGET TO ADJUST FOR VARIANCES AND APPROPRIATING FUNDS THEREFOR (4/5 VOTE REQUIRED)

### **RECOMMENDED ACTION**

Council accept the report and adopt the resolution.

### **SUMMARY**

The Finance Department 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.

In preparing the quarterly financial projections, staff has identified various budget changes that are needed to better reflect actual revenues and expenditures or address changes in budgetary needs. For government entities, a budget creates a legal framework for spending during the fiscal year. After the budget is approved there are circumstances, which arise that could require adjustments to the approved budget. Council Policy 220-02 "Financial Reporting and Transfer Authority" was established in January of 1996 and allows for budget transfers to be completed. This report discusses budget adjustments that staff recommends in the General Fund as well as various other funds.

### **ENVIRONMENTAL REVIEW**

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that filing of the quarterly financial status report is not a "Project" as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change to the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the actions proposed are not subject to CEQA.

### **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.

### **BOARD/COMMISSION RECOMMENDATION**

Not applicable

## DISCUSSION

The Finance Department 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.

## General Fund Overview

Attachment A - Quarterly Financial Report provides the financial outlook for the General Fund for the current fiscal year and includes summary information for revenues and expenditures.

The following chart summarizes the projections for the second quarter of fiscal year 2016/17 for the City's General Fund. The amended budget column includes all Council approved changes to the fiscal year 2016/17 adopted budget that have taken place through the end of the second quarter ending December 31, 2016. The projected column lists the fiscal year 2016/17 projections for revenues and expenditures as of June 30, 2017. The following table reflects the audited General Fund reserves as of July 1, 2016 (beginning fund balance) as well as the projected General Fund reserves for June 30, 2017 (projected ending fund balance).

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2016 (audited)	\$ 17.87	\$ 17.87
Revenues & Transfers In <sup>1</sup>	\$ 151.28	\$ 151.39
Expenditures & Transfers Out <sup>2</sup>	\$ (151.25)	\$ (152.18)
Net Pending Appropriations <sup>3</sup>	\$ -	\$ (0.24)
Projected Surplus/Deficit	\$ 0.03	\$ (1.03)
Projected Fund Balance for June 30, 2017	\$ 17.90	\$ 16.84
Percentage of Operating Budget	11.8%	11.1%

### Notes:

1. The FY2016/17 City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund. The minor surplus reflected in the Amended Budget column is a result of a mid-year Council approved budget amendment.
2. The Amended Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$5.7 million that were carried forward into the fiscal year 2016/17 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2016 and are therefore not included in the above table.
3. The table includes a staff recommended appropriation of \$0.24 million for consulting services in regard to construction defects at the John Lippitt Public Works Center. This appropriation is included as a recommended budget adjustment within this report.

## General Fund Overview

The City's financial outlook improved slightly but remained tentative through the end of the second

quarter. This slight improvement was due to mixed performance in the projection for both City expenditures and revenues that varied, exhibiting offsetting increases and decreases that resulted in small net improvement from the first quarter report. Although revenues are still projected to increase modestly from the amended budget level, projections for two of the City's major revenue categories that include property taxes and other local taxes were revised as follows:

- **Property Taxes** - The property tax revenue projection has been revised upward by \$0.5 million over the first quarter projection based on an improvement in assessed valuations that reflected an increase of 5.7%. This increase is slightly offset by other components within the Property Tax category that are estimated to come in lower than anticipated. So, while individual projections within the property tax category have varied, the second quarter projection reflects an overall improvement in property tax revenues.
- **Other Local Taxes** - The projection for the other local taxes category was revised downward by \$0.8 million from the first quarter projection due to lower than anticipated sales taxes and utility user taxes. The sales tax revenue projection was revised based on the most recent report from the City's sales tax consultant that indicated a decrease in sales tax revenue based on a year over year comparison for the third quarter for the year 2016. The projection for utility users taxes was revised based on the downward trend of remittances from the City's utility providers over the current fiscal year.

The remainder of the City's program revenue categories are projected to be within budget or are tracking with variances where projected increases in one revenue category is projected to offset a projected decrease in another. Overall, General Fund Revenues are projected to exceed the amended budget by \$0.1 million.

Expenditures continue to trend higher in the second quarter as was reported in the first quarter. As a result, expenditures continue to be projected to exceed the amended budget. The major factor affecting the projected overages in expenditures are the personnel services and supplies and services expenses within the Police Department,. These projected overages in expenditures are described as follows:

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

Supplies and Services - The supplies and services category is projected to exceed the General Fund budget by \$0.6 million. The projected major overages by department for this category are as follows:

- **Police** - The Police department is projected to exceed its supplies and services budget by \$0.3

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million. Similar to what was reported in the first quarter the cause for the deficit is due to ammunition, uniforms, training, and contractual costs. To mitigate this deficit, the Department is proactively seeking cost-saving measures and continuously improving processes with operational efficiencies. Examples include an enhanced tracking mechanism to distinguish mandatory versus non-mandatory training.

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

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

### **Development Services Fund Overview**

During the fiscal year 2016/17 budget development process, staff worked towards realigning resources and staffing to the change in workload activities within the Development Services Department. Based on fiscal year 2015/16 actuals and trends through the second quarter, staff is projecting to end the current fiscal year with a modest surplus of \$0.2 million. This is due to positions that have been vacant throughout the fiscal year, causing unanticipated personnel services savings. Staff will continue observe the Development Services Fund for any changes to this forecast.

Staff is recommending budget adjustments as summarized in the following tables.

### General Fund Adjustments

<b>General Fund Department</b>	<b>Description</b>	<b>Expense</b>	<b>Revenue</b>	<b>Net Cost</b>
Administration	Transfer \$5,000 from Supplies and Services to Personnel Services for Communications Intern.	\$ -	\$ -	\$ -
Non-Departmental	Transfer \$182 from Transfers Out to CIP Expenditure category for STL400 expenditures. A reduction will be reflected in Transfers In to the Capital Improvement Fund from the General Fund	\$ -	\$ -	\$ -
Public Works	Appropriation of \$240,000 to the Supplies and Services category for consulting services in regard to construction defects at the John Lippitt Public Works Center.	\$240,000	\$ -	(\$ 240,000)

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	Appropriation of \$2,986 to the Supplies and Services Category of the Construction & Repair Budget for citywide HVAC repairs. The appropriation will be offset with revenue the City received in the amount of \$2,986 from Main Street Recycling, Inc. for the sale of worn HVAC coils.	\$2,986	\$2,986	\$ -
	Appropriation \$24,911 to the Supplies and Services category for the purchase of weather-based "smart" irrigation controllers at numerous park sites and roadway medians in order to help reduce municipal water use.	\$24,911	\$24,911	\$ -
Human Resources	Transfer of \$24,000 from Personnel to Supplies and Services for the replacement of Portacounts needed in order to complete annual fit testing and to comply with Title 8 Section 5144 Respiratory Protection Standards.	\$ -	\$ -	\$ -
Fire	Appropriation of Fire Strike Team reimbursements are related to costs associated with staff time, travel, equipment use, and administration fee for Chula Vista Fire Department strike team deployments for mutual aid agreements to assist in statewide firefighting efforts.	\$61,382	\$61,382	\$ -
	Appropriation of \$9,120 to supplies and services and \$18,200 to Personnel Services to fund specialized training classes. These will be offset by unanticipated revenue for tuition charges from other agencies.	\$27,320	\$27,320	\$ -
Library	Appropriation of donations from various sources for the purchase of books.	\$2,855	\$2,855	\$ -
<b>TOTAL GENERAL FUND</b>		<b>\$359,454</b>	<b>\$119,454</b>	<b>(\$240,000)</b>

**Other Funds Adjustments**

<b>Fund</b>	<b>Description</b>	<b>Expense</b>	<b>Revenue</b>	<b>Net Cost</b>
Transportation Sales Tax (TransNet) Fund	Transfer In from Other Transportation Programs Fund to correct for expenditures posted to Project STM361.	\$ -	\$15,200	\$15,200

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Other Transportation Programs Fund	Appropriation of \$15,200 from the available balance of this fund to the Transfers Out category to correct expenditures that were incorrectly posted for project STM361. Transfer will be reflected as revenue in the TransNet Fund.	\$15,200	\$ -	(\$15,200)
Public Liability Trust Fund	Appropriation of \$1.0 million to the Other Expenses category for unanticipated Public Liability expenses. This appropriation will be made from the available balance of the fund.	\$1,000,000	\$ -	(\$1,000,000)
Gas Tax Fund	Transfer \$182 from CIP Expenditures to Transfers Out category for reimbursement to Sweetwater Authority for costs related to project STL400.	\$ -	\$ -	\$ -
Capital Improvement Fund	A reduction of \$182 in Transfers In from the General Fund and an increase of the equivalent amount in Transfers In from the Gas Tax Fund for reimbursement to Sweetwater Authority for costs related to project STL400.	\$ -	\$ -	\$ -
Equipment Vehicle Replacement Fund	Appropriate \$16,381 to the Capital category for outfitting of Fire BC vehicles.	\$16,381	\$ -	(\$16,381)
Asset Seizure Fund	Appropriation of \$30,000 from the available balance of the Asset Seizure Fund to the supplies and services category for sharing distribution to participating task force agencies and program supplies for the Investigations division.	\$30,000	\$ -	(\$30,000)
Storm Drain Revenue Fund	Appropriate \$20 to the Other Expenses category to process a refund of Storm Drain Fees.	\$20	\$ -	(\$20)
Sewer Facility Replacement Fund	Appropriate \$30 to the Other Expenses category to process a refund of Sewer Facility Replacement Fees	\$30	\$ -	(\$30)
Public Facilities Development Impact Fee (PFDIF) - Fire Suppression System Expansion (PFDIF)	Appropriate \$1,500 to the Supplies and Services category for Fire Station Master Planning consultant Fees.	\$1,500	\$ -	\$ -
State Grant Fund	Appropriate \$13,477 to the Supplies and Services category to support the Thinkabit Lab project at the Civic Center Library. This appropriation will be offset by the California State Library - Library Services and Technology Act Grant revenues.	\$13,477	\$13,477	\$ -

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Workers Compensation Fund	Appropriate \$900,000 to the Other Expenses category for unanticipated Workers Compensation expenditures. This appropriation will be made from the available balance of the fund.	\$900,000	\$ -	(\$900,000)
<b>TOTAL OTHER FUNDS</b>		<b>\$1,976,608</b>	<b>\$28,677</b>	<b>(\$1,947,931)</b>

**Measure P Budget Adjustments**

On December 6, 2016 City Council approved the first allocation of \$3.2 million in projected Measure P Sales Tax revenues towards eligible items that were approved as part of the Infrastructure Expenditure Plan. Staff is requesting budget adjustments to the original allocation as summarized by the table below. These requests do not modify the estimated \$3.2 million in projected revenues and comply with City Council approved Infrastructure Expenditure Plan.

ITEM DESCRIPTION	DEPARTMENT	FY 2017 ORIGINAL APPROPRIATION	FY 2017 REQUESTED ADJUSTMENT	NEW FY 2017 ALLOCATION
Replacement of Public Safety Regional Communications System (RCS) portable radios	Fire	\$ 300,000	\$ (285,000)	\$ 15,000
	Police	\$ 1,025,460	\$ (9,000)	\$ 1,016,460
	Public Works	\$ 215,000	\$ -	\$ 215,000
Firefighting Nozzle Replacement	Fire	\$ -	\$ 18,000	\$ 18,000
MDC Replacement	Fire	\$ -	\$ 150,000	\$ 150,000
Public Safety Regional Communications System (RCS) financing	Fire/Police/ Public Works	\$ 350,000	\$ -	\$ 350,000
Computer Aided Dispatch (CAD) System	Police	\$ 17,660	\$ -	\$ 17,660
Fleet Replacement	Fire	\$ 279,000	\$ 106,000	\$ 385,000
	Police	\$ 463,940	\$ -	\$ 463,940
Fire Station Repairs	Fire	\$ -	\$ 11,000	\$ 11,000
Police Facility Repairs	Police	\$ -	\$ 9,000	\$ 9,000
Fire Station Design (GG229)	Public Works	\$ 100,000	\$ -	\$ 100,000
Residential Street Pavement (STL241)	Public Works	\$ 363,940	\$ -	\$ 363,940
Sod and Soil Additives at Sports Fields (PR324)	Public Works	\$ 85,000	\$ -	\$ 85,000
<b>TOTALS</b>		<b>\$ 3,200,000</b>	<b>\$ -</b>	<b>\$ 3,200,000</b>

Two booking cells at the City Jail currently have cracked bullet resistant windows and cannot be used until the repair is made. Due to this urgency, the Police Department is requesting a reallocation of current year Measure P funding in the amount of \$9,000 from RCS radios to the Police Facility repair project.

The Fire Department was originally allocated \$300,000 in Measure P funding in fiscal year 2017 to fund the replacement of RCS radios. Due to the dynamic needs and priorities of the department, the Fire Department is requesting to reduce the funding for the radios in the current year by \$285,000 and reallocate these funds towards the following eligible items:

- Fleet replacement - \$106,000
- Fire Equipment (Replacement of firefighting nozzles) - \$18,000

- Fire Equipment (Mobile Data Computer replacement) - \$150,000
- Fire Station Repairs - \$11,000

### **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**

There is no fiscal impact resulting from accepting the Quarterly Financial Report.

General Fund - Approval of the resolution amending the fiscal year 2016/17 budget will result in a negative impact of \$240,000 to the General Fund as a result of the appropriations for consulting services related to the construction defects at the John Lippitt Public Works Center and Veteran's Park. As stated in the Quarterly Financial Report, overall the General Fund is projected to have a deficit of \$1.03 million, including this pending appropriation. Staff will continue to work with the departments in order to help mitigate the overall General Fund projected deficit. The other requested changes have no net impact to the General Fund as these changes are neutral as they are either revenue offset or reflect offsetting transfers between expenditure categories.

Other Funds - The recommended changes in the Other Funds result in a total of \$2.0 million in appropriations to these funds that are partially offset by \$28,677 in revenues. The total net impact of these changes is \$1.9 million to the Other Funds, which will be absorbed by the available fund balances of these funds.

It is important to note, that while the budget amendments in the Public Liability Fund and Workers Compensation Fund are currently being appropriated from available balances, this action will exhaust the reserve balances of these funds. Any additional expenditures in these funds will negatively impact the General Fund Reserves and a separate item will be brought forward at that time.

### **ONGOING FISCAL IMPACT**

Staff will continue to monitor and analyze revenue and expenditure trends and incorporate changes as necessary into future financial reports and/or budgets.



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## **ATTACHMENTS**

1. FY2017 Second Quarter Financial Report

*Staff Contact:       Tessa Nguyen, Budget & Analysis Manager*  
*David Bilby, Director of Finance/Treasurer*