



City of Chula Vista

Legislation Details (With Text)

File #: 17-0022 **Name:**

Type: Consent Item **Status:** Passed

In control: City Council

On agenda: 2/7/2017 **Final action:** 2/7/2017

Title: 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)

Sponsors:

Indexes:

Code sections:

Attachments: 1. Item 7 - FY17 Q2 Financial Report, 2. Item 7 - FY17 Q2 Budget Adjustments Resolution

Date	Ver.	Action By	Action	Result
2/7/2017	1	City Council	approved	Pass

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 ¹	\$ 151.28	\$ 151.39
Expenditures & Transfers Out ²	\$ (151.25)	\$ (152.18)
Net Pending Appropriations ³	\$ -	\$ (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 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

General Fund Department	Description	Expense	Revenue	Net Cost
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)
	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	\$ -
TOTAL GENERAL FUND		\$359,454	\$119,454	(\$240,000)

Other Funds Adjustments

Fund	Description	Expense	Revenue	Net Cost
Transportation Sales Tax (TransNet) Fund	Transfer In from Other Transportation Programs Fund to correct for expenditures posted to Project STM361.	\$ -	\$15,200	\$15,200
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	\$ -
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)
TOTAL OTHER FUNDS		\$1,976,608	\$28,677	(\$1,947,931)

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
TOTALS		\$ 3,200,000	\$ -	\$ 3,200,000

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.

ATTACHMENTS

1. FY2017 Second Quarter Financial Report

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

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE
FISCAL YEAR 2016/17 BUDGET TO ADJUST FOR
VARIANCES AND APPROPRIATING FUNDS THEREFOR

WHEREAS, the City Charter states that at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by a motion adopted by the affirmative votes of at least four members; and

WHEREAS, staff has completed the budget review for the quarter ending December 31, 2016 and is recommending a number of budget amendments; and

WHEREAS, staff is recommending approximately \$0.3 million in new appropriations to various departments in the General Fund that will be offset by \$0.1 million in new revenues resulting in a net impact of \$0.2 million; and

WHEREAS, the appropriations in Other Transportation Programs Fund, Equipment Vehicle Replacement Fund, the Asset Seizure Fund, Storm Drain Fund, Sewer Facility Replacement Fund the Fire Suppression System Expansion, Worker's Compensation Fund AND the Public Liability Trust Fund will be made from the available balances of these funds resulting in a negative impact to the available balances of these funds; and

WHEREAS, the appropriation to the Worker's Compensation Fund totals \$900,000 and is necessary to fund unanticipated claim expenditures; and

WHEREAS, the appropriation to the Public Liability Trust Fund totals \$1,000,000 and is necessary to fund unanticipated liability claim expenditures; and

WHEREAS, the appropriation to the Other Transportation Programs fund will have a positive impact of \$15,000 to the available balance of this fund; and

WHEREAS, the recommended adjustments to the Transportation Sales Tax Fund and the Capital Improvement Fund, and the States Grant Fund are offsetting and are neutral to the available balance of this fund; and

WHEREAS, the appropriation of \$13,477 to the States Grant Fund offset by revenue from the Library Services and Technology Act that will be used to in support the Library department's Thinkabit Lab.

WHEREAS, the adjustments to the Measure P Fund result in a net transfer of funds of \$106,000 from the supplies and services expenditure category to the capital expenditure category of this fund, thus reflecting the reprioritization of the use of these funds based on the most recent needs assessment for the use of these funds.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Chula Vista, that it does hereby amend the fiscal year 2016/17 budget and approves the following appropriations:

Summary of General Fund Appropriations and/or Transfers

DEPARTMENT/FUND	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	CAPITAL	CIP PROJECT	TRANSFERS OUT	UTILITIES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
Administration	\$ 5,000	\$ (5,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Human Resources	\$ (24,000)	\$ 24,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-Departmental	\$ -	\$ -	\$ -	\$ -	\$ 182	\$ (182)	\$ -	\$ -	\$ -	\$ -
Fire	\$ 63,690	\$ 25,012	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 88,702	\$ 88,702	\$ -
Public Works	\$ -	\$ 267,897	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 267,897	\$ 27,897	\$ 240,000
Library	\$ -	\$ 2,855	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,855	\$ 2,855	\$ -
TOTAL GENERAL FUND	\$ 44,690	\$ 314,764	\$ -	\$ -	\$ 182	\$ (182)	\$ -	\$ 359,454	\$ 119,454	\$ 240,000

Summary of Appropriations and/or Transfers for Other Funds

DEPARTMENT/FUND	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	CAPITAL	CIP PROJECT	TRANSFERS OUT	UTILITIES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
Gas Tax	\$ -	\$ -	\$ -	\$ -	\$ (182)	\$ 182	\$ -	\$ -	\$ -	\$ -
Transp Sales Tax Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,200	\$ (15,200)
Asset Seizure	\$ -	\$ 30,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,000	\$ -	\$ 30,000
State Grants Fund	\$ -	\$ 13,477	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,477	\$ 13,477	\$ -
Storm Drain Revenue	\$ -	\$ -	\$ 20	\$ -	\$ -	\$ -	\$ -	\$ 20	\$ -	\$ 20
Public Liability Trust	\$ -	\$ -	\$ 1,000,000	\$ -	\$ -	\$ -	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Equipment Veh Replacement Fnd	\$ -	\$ -	\$ -	\$ 16,381	\$ -	\$ -	\$ -	\$ 16,381	\$ -	\$ 16,381
Workers Compensation	\$ -	\$ -	\$ 900,000	\$ -	\$ -	\$ -	\$ -	\$ 900,000	\$ -	\$ 900,000
Sewer Facility Replacement	\$ -	\$ -	\$ 30	\$ -	\$ -	\$ -	\$ -	\$ 30	\$ -	\$ 30
Fire Suppression Sys Expansion	\$ -	\$ 1,500	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,500	\$ -	\$ 1,500
Capital Improvement Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other Transportation Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,200	\$ -	\$ 15,200	\$ -	\$ 15,200
TOTAL OTHER FUNDS	\$ -	\$ 44,977	\$ 1,900,050	\$ 16,381	\$ (182)	\$ 15,382	\$ -	\$ 1,976,608	\$ 28,677	\$ 1,947,931

Summary of Proposition P Adjustments

DEPARTMENT/FUND	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	CAPITAL	CIP PROJECT	TRANSFERS OUT	UTILITIES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
2016 Measure P Sales Tax Fund	\$ -	\$ (106,000)	\$ -	\$ 106,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Presented by

Approved as to form by

David Bilby
Director of Finance/Treasurer

Glen R. Googins
City Attorney

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2017 through December 31, 2016 and projecting out to June 30, 2017. The purpose of this report is to provide the City Council, Management and the citizens of Chula Vista an update on the City's fiscal status based on the most recent financial information.

ECONOMIC UPDATE

The National Forecast¹ - In the special Election Forecast December report, UCLA Anderson Forecast Senior Economist David Schulman examines the impact of "Trumponomics" by evaluating the impact of President elect Trump's economic policy proposals are likely to have on the nation's economy. Shulman categorizes Trump's bundle of economic proposals that include tax reductions, increased spending for defense and infrastructure, easing of regulations and trade policy changes as "a massive fiscal stimulus on an economy at or very close to full employment." Shulman further states that these proposals will likely drive up the annual deficit to \$1.0 trillion and have an adverse effect on the housing market due to an increase in interest rates resulting from projected increased inflation. Overall Shulman predicts GDP growth to accelerate from its recent 2% growth path to 3% for about four consecutive quarters, then will slide back to 2%. Employment will continue to grow on the order of 140,000 jobs per month in 2017 and 120,000 per month in 2018.

The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg predicts that the State will benefit from President elect's Trump's economic proposals that call for increased defense spending as he states that "The increase in defense spending will be disproportionately directed to California, as sophisticated airplanes, weaponry, missiles and ships require the technology that is produced here," "Moreover, there are few places to build the proposed 150 new warships, and San Diego is one of them. Regionally, we expect a positive impact in the Bay Area and in coastal Southern California." Overall, the forecast for 2017 and 2018 total employment growth is 1.8% and 1.3%, respectively. Payrolls will grow at about the same rate over the forecast horizon. Real

personal income growth is forecast to be 3.6% and 3.8% in 2017 and 2018, respectively. Home building will continue in California at about 120,000 units per year through the forecast horizon.

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators County remained unchanged for October remaining flat for the second consecutive month. The index exhibited more positive components than negative ones, with consumer confidence being up moderately as the best performing component. Residential units authorized by building permits, initial claims for unemployment insurance, and the outlook for the national economy were up only slightly. These were offset by moderate declines in local stock prices and help wanted advertising.

Overall, the forecast for 2017 continues to be for positive job growth locally in 2017, but not enough to push the local unemployment rate much lower than the current level. On the other hand, consumer confidence continues to rebound and was up for the fourth consecutive month in October. Low gas prices, a good labor market, and wages finally increasing are all possible reasons for the improvement in consumer confidence providing important momentum heading into the new year.

San Diego Index of Leading Economic Indicators San Diego County, 2012 – 2016



¹ Source: UCLA Anderson Forecast, December 2016

² Source: UCLA Anderson Forecast, December 2016

³ Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, November 30, 2016; retrieved from URL: <http://home.sandiego.edu/~agin/usdle/index.html>

General Fund Reserves - The General Fund Reserve policy was established to ensure that the City's finances are managed in a manner which will:

1. Continue to provide for the delivery of quality services
2. Maintain and enhance service delivery as the community grows in accordance with the General Plan
3. Minimize or eliminate the need to raise taxes and fees because of temporary revenue shortfalls
4. Establish the reserves necessary to meet known and unknown future obligations and ability to respond to unexpected opportunities

The following table reflects the audited General Fund reserves as of June 30, 2016 as well as the projected General Fund reserves for June 30, 2017.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2016 (audited)	\$ 17.87	\$ 17.87
Revenues & Transfers In ¹	\$ 151.28	\$ 151.39
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Net Pending Appropriations ³	\$ -	\$ (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 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.

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:

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.

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 2016. The projection for utility users taxes was revised based on the downward trend of remittances from the City's utility providers over the prior fiscal year. Overall, General Fund Revenues are projected to exceed the amended budget by \$0.1 million. A discussion of each of the City's major discretionary revenues is included later in this report.

Similar to the first quarter, expenditures continue to be projected to exceed the amended budget. Major factors affecting the projected overages in expenditures are the personnel services and supplies and services expenses within the Police, Fire, Public Works and Library departments.

The major factor affecting the projected overages in expenditures are the personnel services and supplies and services expenses within the Police Department. 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.

Deficits in the Supplies and Services category are projected for the Police and Public Works departments. As reported in the first quarter, the projected deficit in Police department is due to ammunition, uniforms, training, and contractual costs. The projected deficit in the Public Works department is attributed to unanticipated expenses related to numerous repairs to City facilities and infrastructure.

All other expenditure categories including Utilities, Other Expenses, Transfers Out and Capital expenditures are projected to be within budget as of the second quarter.

Revenues

The following table compares the projected revenues included in the adopted budget and the updated revenue projections for discretionary and departmental program revenues. Overall, General Fund revenues are projected at \$0.1 million above the current amended budget as detailed in the following table:

Category	Amended Budget as of 12/31/2016	FY2017 Q2 Projected	Variance
Property Taxes	\$ 31,174,827	\$ 31,705,086	\$ 530,259
Sales Tax	\$ 35,550,442	\$ 35,114,039	\$ (436,403)
Motor Vehicle License	\$ 19,692,436	\$ 19,965,585	\$ 273,149
Other Revenue	\$ 13,560,450	\$ 13,653,114	\$ 92,664
Transfers In	\$ 11,949,135	\$ 11,894,052	\$ (55,083)
Franchise Fees	\$ 11,795,951	\$ 11,795,951	\$ -
Charges for Services	\$ 7,076,334	\$ 7,448,485	\$ 372,151
Revenue from Other Agencies	\$ 2,090,808	\$ 2,020,412	\$ (70,396)
Utility Users Tax	\$ 6,379,964	\$ 5,860,328	\$ (519,636)
Transient Occupancy Taxes	\$ 3,654,779	\$ 3,676,370	\$ 21,591
Use of Money & Property	\$ 2,728,876	\$ 2,422,835	\$ (306,041)
Other Local Taxes	\$ 2,256,753	\$ 2,391,626	\$ 134,873
License and Permits	\$ 1,321,085	\$ 1,272,346	\$ (48,739)
Fines, Forfeitures, Penalties	\$ 1,020,700	\$ 1,145,546	\$ 124,846
Real Property Transfer Tax	\$ 1,023,661	\$ 1,023,661	\$ -
TOTAL REVENUES	\$ 151,276,201	\$ 151,389,436	\$ 113,235

The major non-discretionary revenue variances are as follows:

- A projected \$0.4 million net increase in Charges for Services, largely due to higher projected Police Reimbursement revenues for jail services, special events and fire construction fees. It is important to note however that the Police reimbursement

revenues have an inherent offsetting expenditure related to overtime expenditures.

- A projected \$0.3 million decrease in the Use of Money and Property due to lower lease and rental revenue from City buildings.
- A projected shortfall of \$0.1 million in the Revenue from Other Agencies category due to anticipated decreases in High Intensity Drug Trafficking Area (HIDTA) reimbursements. This is due to a reallocation of support from HIDTA efforts to continue supporting the Southwest Border Anti-Money Laundering Alliance (SWBAMLA) operations.
- A projected \$0.1 million increase in the Fines, Forfeitures, and Penalties category for higher than anticipated negligent vehicle impound processing fees and parking citation revenues. The updated projections for these revenues are in alignment with prior year trends.

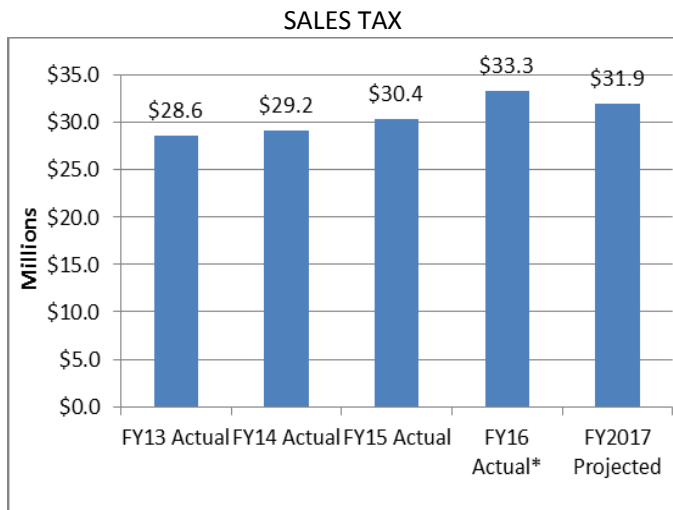
General Fund Major Revenues

Sales Tax - is projected to be the City's largest revenue source, representing 22.1% of General Fund revenues in the fiscal year 2016/17 amended budget. HdL Companies, the City's Sales Tax consultant, has provided data for third quarter of calendar year 2016. They report that the change in sales tax receipts between third quarter calendar year 2015 and the third quarter calendar year 2016 has decreased by 1.8% in Chula Vista. General Consumer Goods represents the largest major industry group for Sales Tax generation. In this category, the change in Sales Tax decreased by 2.4% in Chula Vista when compared to the same quarter for 2015. The largest sector contributing to the decline in Sales Tax growth was the decrease in Fuel and Service Stations by 23.0%. These decreases were offset somewhat by other sectors that experienced increases when compared to the same quarter in 2015. These included: Autos and Transportation (5.1%), Restaurants and Hotels (5.8%), and Building and Construction (1.5%).

As a result of the most recent trend, the Sales Tax revenue projection has been revised downward by \$0.4 million from the first quarter projection that was based on the amended budget level. Staff will continually monitor the

trends in economic activity to more accurately reflect projected earnings within this category.

The following chart represents actual Sales Tax collections since fiscal year 2012/13 and the projection for fiscal year 2016/17.



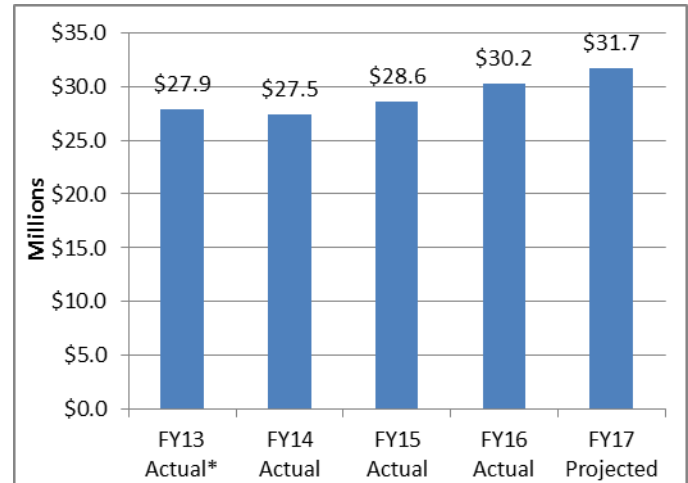
*Note: FY2016 Sales Tax revenues includes a \$1.9 million one-time payment related to the wind down of the Triple Flip allocation.

Property Taxes - The City of Chula Vista receives property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 21.3% of General Fund revenues in the fiscal year 2016/17 budget.

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.

The following chart represents actual Property Tax revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.

PROPERTY TAXES

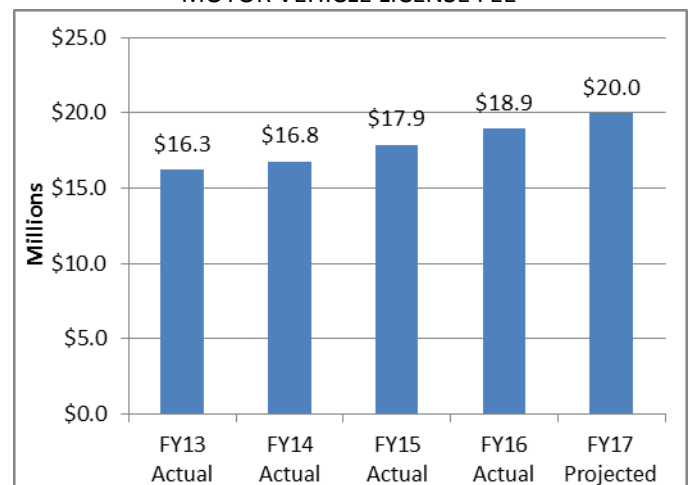


*Note: FY2013 Property Tax revenues include a one-time payment related to the elimination of the City's Redevelopment Agency.

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

The projection for VLF revenues has been revised upward \$0.3 million to \$20.0 million in the second quarter reflecting the improvement in assessed valuations. The following chart represents actual VLF revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.

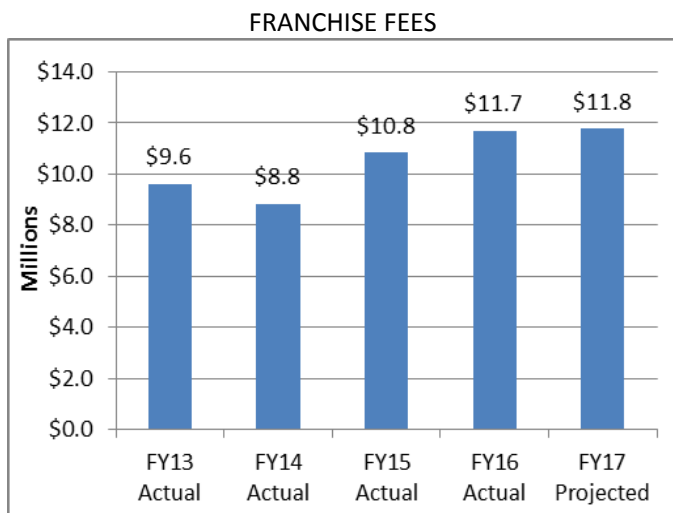
MOTOR VEHICLE LICENSE FEE



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.

There is no change in the projection for Franchise Fee revenues in the 2nd Quarter. Franchise Fee revenues are projected at the budgeted level \$11.8 million. This is an increase over fiscal year 2015/16 actuals of approximately 1%.

The following chart represents actual franchise fee revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17. Note that fiscal year actual 2012-13 revenues reflect previously accrued Franchise Fee revenues that were realized by the City.

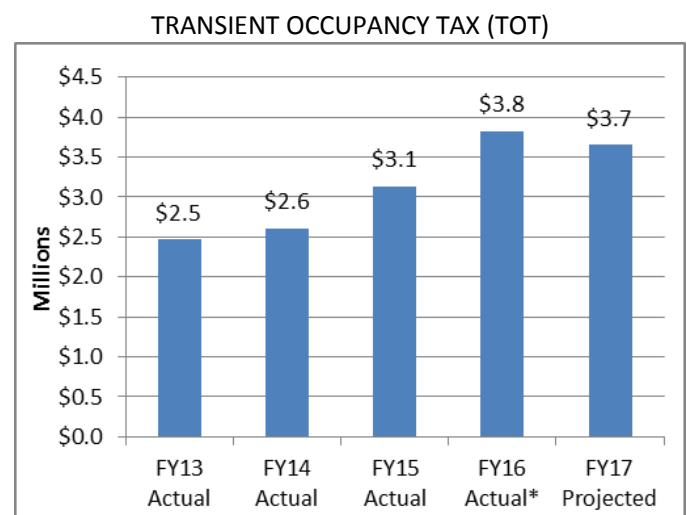


Transient Occupancy Tax (TOT) - The City receives 10% of hotel and motel room rates for stays less than 30 days. TOT revenues have reflected a positive trend that began in fiscal year 2012 and has subsequently continued.

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 2016/17 TOT revenues are estimated at \$3.7 million based on the previous fiscal year's growth trend. Eliminating prior year collections included in fiscal year 2015/16 actuals of \$0.3 million, TOT revenues are projected to increase by 3.9% in fiscal year 2016/17. TOT revenues are projected to increase slightly in the 2nd quarter, estimated to come in higher than the budgeted level by \$0.02 million.

The following chart represents actual TOT revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.



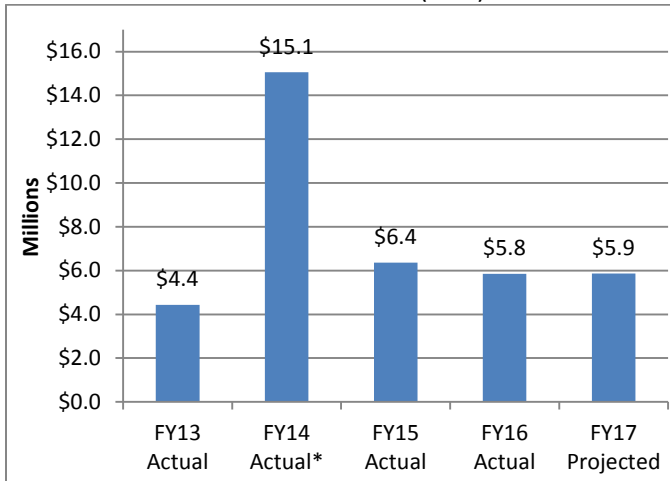
*Note: FY2016 TOT revenues include \$0.3 million in payments for prior year collections.

Utility Users Tax (UUT) - by 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.

UUT revenues have been revised downward by \$0.5 million reflecting the trend of remittances from the City's utility providers over the current fiscal year. Fiscal year 2016/17 projected revenues include a full year of anticipated prepaid wireless UUT revenues that became effective on January 1, 2016.

The following chart reflects actual UUT revenue since fiscal year 2012/13. Fiscal year 2016/17 is projected and does not reflect actual collections.

UTILITY USERS TAX (UUT)



*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.

Expenditures

The General Fund's amended budget reflects the Council adopted budget of \$146.5 million, Council approved mid-year appropriations of \$4.8 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 \$157.0 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2016. In total, Departments have expended \$79.4 million or 51% of the General Fund budget after 50% of the fiscal year has elapsed. Overall, expenditures are tracking slightly ahead of budget as of the end of the second quarter.

GENERAL FUND EXPENDITURES AS OF 12/31/2016

Department	Amended Budget as of 12/31/2016	Expended as of 12/31/2016	Variance	% Expended
City Council	\$ 1,568,272	\$ 850,795	\$ 717,477	54%
Boards and Commissions	\$ 19,179	\$ 17,454	\$ 1,725	91%
City Clerk	\$ 1,115,332	\$ 576,193	\$ 539,139	52%
City Attorney	\$ 3,080,051	\$ 1,610,535	\$ 1,469,516	52%
Administration	\$ 2,093,362	\$ 1,185,234	\$ 908,128	57%
Information Technology Svcs	\$ 4,063,238	\$ 2,007,174	\$ 2,056,064	49%
Human Resources	\$ 2,726,895	\$ 1,427,877	\$ 1,299,018	52%
Finance	\$ 3,686,918	\$ 2,052,882	\$ 1,634,036	56%
Non-Departmental	\$ 15,743,554	\$ 1,706,214	\$ 14,037,340	11%
Animal Care Facility	\$ 2,973,062	\$ 1,544,665	\$ 1,428,397	52%
Economic Development	\$ 1,947,006	\$ 1,050,127	\$ 896,879	54%
Development Svcs - GF	\$ 2,688,047	\$ 1,397,609	\$ 1,290,438	52%
Police	\$ 50,441,737	\$ 29,044,644	\$ 21,397,093	58%
Fire	\$ 29,304,124	\$ 16,174,975	\$ 13,129,149	55%
Public Works	\$ 27,150,269	\$ 14,365,088	\$ 12,785,181	53%
Recreation	\$ 4,476,996	\$ 2,199,871	\$ 2,277,125	49%
Library	\$ 3,908,421	\$ 2,168,932	\$ 1,739,489	55%
TOTAL EXPENDITURES	\$ 156,986,462	\$ 79,380,269	\$ 77,606,193	51%

The following table reflects the projected expenditures for June 30, 2017. At the end of the second quarter, there are four departments that are projecting expenditure deficits. These include Police, Fire, Public Works and Library. The projected deficits for these departments are within the Personnel Services and Supplies and Services expenditure categories. The projected personnel services deficits in the Police (\$1.6) million and Fire department (\$0.05) million are attributed to higher overtime costs. Police is continuing its efforts to isolate the specific sources causing this deficit in an effort to mitigate the growth of this deficit. The projected deficit in the Fire Department is smaller and is projected to be contained within the department's budget. A projected \$0.1 million deficit in Personnel Services expenditures is projected for the Library due to increased hourly wage expenses that are required to maintain current operation levels. Overall, the deficits in these departments are projected to be partially offset with savings in other departments that are either under-filling or maintaining vacant positions.

Deficits within the Supplies and Services category are also projected for the Police and Public Works departments. The Police department is projected to exceed its supplies and services budget by \$0.3 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. 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.

**GENERAL FUND PROJECTIONS BY DEPARTMENT
 FOR JUNE 30, 2017**

Department	Amended Budget as of 12/31/2016	FY2017 Q2 Projected	Variance
City Council	\$ 1,568,272	\$ 1,568,272	\$ -
Boards and Commissions	\$ 19,179	\$ 19,179	\$ -
City Clerk	\$ 1,115,332	\$ 1,012,855	\$ 102,477
City Attorney	\$ 3,080,051	\$ 2,957,710	\$ 122,342
Administration	\$ 2,093,362	\$ 2,066,198	\$ 27,165
Information Technology Svcs	\$ 4,063,238	\$ 4,008,401	\$ 54,837
Human Resources	\$ 2,726,895	\$ 2,664,682	\$ 62,213
Finance	\$ 3,686,918	\$ 3,579,716	\$ 107,202
Non-Departmental	\$ 15,743,554	\$ 15,416,045	\$ 327,509
Animal Care Facility	\$ 2,973,062	\$ 2,947,973	\$ 25,089
Economic Development	\$ 1,947,006	\$ 1,867,548	\$ 79,458
Development Svcs - GF	\$ 2,688,047	\$ 2,482,470	\$ 205,577
Police	\$ 50,441,737	\$ 52,194,587	\$ (1,752,850)
Fire	\$ 29,304,124	\$ 29,359,356	\$ (55,233)
Public Works	\$ 27,150,269	\$ 27,329,687	\$ (179,419)
Recreation	\$ 4,476,996	\$ 4,440,953	\$ 36,043
Library	\$ 3,908,421	\$ 3,999,666	\$ (91,245)
TOTAL EXPENDITURES	\$ 156,986,462	\$ 157,915,298	\$ (928,836)

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

Budget Transfers

The following table reflects the administrative budget transfers that have been approved through the third quarter. These changes result in no net fiscal impact to the General Fund budget and are within the Council policy allowing for transfers up to \$15,000.

SUMMARY OF GENERAL FUND BUDGET TRANSFERS

Date	Description	Amount	From/To
Human Resources			
Jul-16	Transfer for copier lease	\$352	Supplies and Services to Capital
Animal Care Facility			
Sep-16	Transfer to cover contract expenditures	\$15,000	Personnel Services to Supplies and Services
City Clerk			
Nov-16	Transfer to cover various supplies and services	\$8,600	Capital to Supplies and Services
Administration			
Dec-16	Transfer for Communications Intern	\$15,000	Supplies and Services to Personnel Services

Mid-Year Budget Amendments

Mid-year expenditure appropriations approved through December 31, totaled \$4,787,358 million. The City Council approved changes to budgeted revenues of \$4,814,871. Combined, these changes result in a positive budgeted net impact of \$27,513.

The City Council approved the following budget amendments during through the second quarter:

SUMMARY OF GENERAL FUND BUDGET AMENDMENTS

Date	Description/Dept	Revenue	Expenditure	Net Impact
7/1/2016	Principal Management Analyst and Senior Civil Engineer Reclassification (Public Works)	\$ 32,212	\$ 32,212	\$ -
7/1/2016	Senior Economic Development Specialist Classification review (Economic Development)	\$ -	\$ -	\$ -
8/2/2016	Addition of 1.00 Latent Print Examiner through County of San Diego Cal-ID Program (Police)	\$ 23,000	\$ 23,000	\$ -
8/16/2016	Budget adjustments related to the new ERP Software with Tyler Technologies (Various)	\$ -	\$ -	\$ -
9/13/2016	Addition of Administrative Fees for Fiscal Agent Positions (Police)	\$ 18,576	\$ -	\$ 18,576
11/1/2016	Addition of Administrative Fees for Fiscal Agent Positions (Police)	\$ 5,094	\$ -	\$ 5,094
11/15/2016	1st Quarter Budget Adjustments (Various)	\$ 1,535,989	\$ 1,532,854	\$ 3,135
11/15/2016	Transfer from Personnel Services to Supplies and Services for Veterinarian Svcs. (\$35,000)	\$ -	\$ -	\$ -
11/15/2016	Reduction of Dispatch Supervisor (Police)	\$ -	\$ (46,661)	\$ 46,661
11/15/2016	Addition of Dispatcher (Police)	\$ -	\$ 40,473	\$ (40,473)
11/15/2016	Reduction of Sr. Mgmt. Analyst (Police)	0	\$ (54,092)	\$ 54,092
11/15/2016	Addition of Supervising Public Safety Analyst (Police)	0	\$ 59,572	\$ (59,572)
12/6/2016	FY 17 Measure P Revenues	\$ 3,200,000	\$ 3,200,000	\$ -
Total Appropriations to Date		\$ 4,814,871	\$ 4,787,358	\$ 27,513