



# City of Chula Vista

## Staff Report

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**File#:** 17-0129, **Item#:** 4.

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A. QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDING MARCH 31, 2017

B. RESOLUTION NO. 2017-069 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 (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 table summarizes the projections for the third 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 third quarter ending March 31, 2017. The projected column lists the fiscal year 2016/17 projections for revenues and expenditures as of June 30, 2017. The following table reflects the available 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 (Available)	\$ 17.86	\$ 17.86
Revenues & Transfers In <sup>1</sup>	\$ 151.73	\$ 150.91
Expenditures & Transfers Out <sup>2</sup>	\$ (151.95)	\$ (150.60)
Net Pending Appropriations	\$ -	\$ (0.30)
Projected Surplus/Deficit	\$ (0.21)	\$ 0.00
Projected Fund Balance for June 30, 2017	\$ 17.64	\$ 17.86
Percentage of Operating Budget	11.6%	11.8%

### 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 deficit that is reflected in the Amended Budget column is a result of mid-year Council approved budget amendments.
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.

### **General Fund Overview**

The City's financial outlook improved as of the end of the third quarter review. The improvement in the outlook indicates that the City is projected to complete the current fiscal year within budget. This improvement can be attributed to focused management of the Police department's overtime budget where significant strides were made in reducing the projected deficit that was estimated in the second quarter. The City's financial outlook also improved due to projected retirement cost savings. These savings will be realized as a result of the City choosing the pre-payment option on the PERS amount owed to CalPERS for normal retirement costs and unfunded liability for fiscal year 2016/17. Similarly, as reported in the second quarter, the City's financial performance continued to be mixed through the third quarter. The projections for both City expenditures and revenues yielded offsetting increases and decreases that resulted in a balanced projection for the end of current fiscal year.

Although the current fiscal year-end projection is balanced, there are additional considerations that may impact how the General Fund will end the current fiscal year. These items include the following:

- The Public Liability Expense Fund is anticipated to exceed the approved budget. Projected costs are trending higher due to increased litigation and settlement expenses and the reserve funds have been exhausted. In order to avoid ending the fiscal year with a deficit in this fund, it is likely that an additional transfer from the General Fund will be needed.
- Unanticipated expenditures that may present themselves in the 4<sup>th</sup> quarter.
- Rising levels of Workers Compensation claims.
- Setting funds aside into a pension reserve stabilization fund which could assist in addressing anticipated pension cost increases over the next few years and will be considered as a part of the long term financial planning process.

### General Fund Revenues

The projections for the City's major revenue categories including Property Taxes, Sales Tax, and Utility Users Taxes continued to diverge as projected revenues in these categories stabilized in the third quarter and were relatively unchanged. Projected Franchise Fee revenues however have been updated to reflect a \$0.6 million deficit in comparison to the amended budget. Lower franchise fees are projected in comparison to the second quarter by approximately \$0.7 million due to the following:

- Cable - In the second quarter report, staff had projected a 25% decrease in cable franchise fees from AT&T, one of two cable utility providers in the City. Although this decline was taken into consideration in the projections, staff was recently made aware of a one-time adjustment of over \$400,000 as a result of a remittance error from Cox cable, the second of the City's cable providers.
- Trash Franchise Fees - Through the second quarter, trash franchise fees increased 3% over the same timeframe from the previous year. In contrast, payments received through the third quarter decreased approximately 1% in comparison to the same time period in fiscal year 2015-16. This caused a downward fluctuation in trash franchise fees of about \$150,000.
- Gas and Electricity - Another major change from the second quarter was a decrease in energy franchise fee revenue. The third quarter projection includes a revised projection for energy

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related revenues which decreased 6.7% from the previous fiscal year. This equates to a downward projection adjustment of approximately \$174,000 for electricity and gas related franchise fees from the second quarter projection.

The other major revenue variances to report as of the end of the third quarter are as follows:

- **Transfers In** - The projection for the Transfers In revenue category was reduced by \$1.1 million from the current amended budget in the third quarter as a result of a loan repayment from the Public Facilities Development Impact Fund that will not be realized in the current fiscal year. Staff is requesting a budget adjustment as part of this report to reduce the budget Transfer-In as a result of unanticipated personnel savings due to the pre-payment of CalPERS retirement costs.
- **Use of Money and Property** - The Use of Money and Property revenue category is projected to be lower by \$0.2 million as result of lower rental and lease revenue for City Facilities.

The projected revenue shortfalls in the amended budget are estimated to be offset by projected increases in the following revenue categories:

- **Charges for Services** - Charges for Services revenues are projected to exceed the current budget by \$0.7 million due to increased: Police Reimbursements, Fire Construction Fees, Passport Fees, and Developer Fees.
- **Other Revenue** - The Other Revenue category is projected to exceed the budget by \$0.5 million as a result of increased reimbursement revenues.

Overall, General Fund revenues are projected to be lower by \$0.8 million when compared to the fiscal year 2016-17 amended budget. The net impact of this projected shortfall is expected to be mitigated by expenditure savings resulting in no adverse impact to the General Fund.

### General Fund Expenditures

The increasing expenditure trend that resulted in the reported expenditure deficit in the second quarter subsided as City expenditures leveled off in the third quarter. Overall, a \$1.3 million savings in General Fund expenditures is projected as of the end of the third quarter when compared to the fiscal year 2016-17 amended budget. Despite the projected savings in the General Fund, some departments are projecting deficits in overall expenditures or within expenditure categories for the current fiscal year. These deficits are described as follows:

Personnel Services - The personnel services category was projected to exceed the General Fund budget by \$0.9 million as reported in the second quarter. The third quarter projection indicates that personnel services costs will be \$0.6 million under the current budget level. The improvement in the projection over the previous quarter is largely due to the recognition of retirement costs (PERS) savings that the City will generate as a result of prepayment of the PERS costs. A discussion of the PERS savings is included later in this report.

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Although the personnel services category is overall projected to be within budget, there are some departments that are projected to exceed their personnel services budgets for various reasons. These are as follows:

- Police - The Police department is projected to exceed its personnel services budget by \$0.4 million due to overtime costs. This is in contrast to the \$1.6 million projected deficit in personnel services estimated in the second quarter. The Police Department has made a concentrated effort to mitigate their projected Personnel Services deficit. The improvement in the projection is due to the following actions:
  1. Implementation of operational efficiencies, including protocol changes to investigation/lab call-outs and acting positions.
  2. Closer monitoring of overtime usage and determination of whether overtime was necessary.
  3. Emphasis of transparency by Police Command staff by increasing awareness of the overtime deficit and providing updates of staff efforts to achieve cost savings.
- Fire - The Fire department is projected to exceed its personnel services budget by \$0.6 million primarily due to overtime costs. This projection also reflects the current fiscal year \$116,000 impact of the labor negotiation agreement that was reached with the International Association of Firefighters (IAFF) Local 2180 union. The projected deficit is estimated to be offset with capital cost savings and over-realized revenues generated by fire construction fees.
- Library - The Library department is projected to exceed its personnel services budget by \$0.1 million due to higher than anticipated hourly wages expenses. The increased hourly wage expenses are necessary to sustain current operational levels at Library branches. The net impact of this projected deficit is expected to be offset by over-realized passport fee revenues.

Supplies and Services - The supplies and services category is projected to exceed the General Fund budget by a net \$0.5 million. The projected major overages by department for this category are as follows:

- Public Works - The Public Works department is projected to exceed its supplies and services budget by \$0.4 million. This is due to unanticipated expenses related to numerous repairs to City facilities and infrastructure. The department will be transferring a portion of its supplies and services expenditures to other eligible cost centers and appropriating unanticipated revenue realized from insurance reimbursements in an effort to mitigate this deficit.
- Police - The Police department is projected to exceed its supplies and services budget by \$0.2 million. The third quarter projection represents a \$0.1 million improvement from the second quarter estimate. As previously reported, the cause for the deficit is due to ammunition, uniforms, training, and contractual costs. The Police department will continue its cost containment efforts to further mitigate this deficit through the end of the fiscal year.
- Fire - The Fire Department is projecting a \$0.1 million deficit in its supplies and services

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budget primarily due to equipment rental charges and fleet maintenance expenses. The equipment rental expenses are due to rental charges for trailers used to house personnel at fire station 9 pending the completion of water damage repair. The fleet maintenance expenses are based on the projected charges to maintain/repair the Fire Department's fleet in the current fiscal year. The department will explore offsetting this deficit by reviewing and closing supplies and services expenditure encumbrances and appropriating over-realized revenues.

- Non-Departmental - A \$0.2 million deficit in the supplies and services category of the Non-Departmental budget is projected due to the Winter 2017 Storm event expenses that are captured in this projection. This deficit is projected to be largely offset by revenues that will be received upon completion of the damage claims process by the City.

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 trends through the third quarter, staff is projecting to end the current fiscal year balanced. Staff vacancies will generate expenditure savings, and cause a shortfall in revenues for staff reimbursements. Staff anticipates that this will result in a no net impact to the fund at year-end. Staff continues to monitor the Development Services Fund for any changes.

Staff is recommending budget adjustments in the General Fund and Other funds as summarized in the following tables:

General Fund Adjustments (3<sup>rd</sup> Quarter)

General Fund Department	Description	Expense	Revenue	Net Cost
Non-Departmental	Increase in the transfer to the Liability Fund for projected increased litigation and settlement costs	\$303,430	\$0	\$303,430
	\$60,000 Transfer from Supplies and Services (from currently budgeted CVEATC insurance costs) to Transfers-Out for Utility Costs at CVEATC	\$0	\$0	\$0
	Transfer In from AD97-2 for reimbursement to the General Fund for previous project expenditures incurred	\$0	\$24,870	-\$24,870
Development Services General Fund	A \$3,221 Transfer from Personnel Services to the Transfers-Out category for SANDG reimbursement.	\$0	\$0	\$0

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Police	Personnel Services appropriation for reimbursed overtime from special events	\$250,000	\$250,000	\$0
Public Works	Appropriation to Supplies and Services category offset by insurance reimbursement revenue for damages at Fire Station 9	\$65,000	\$65,000	\$0
	A \$100,000 transfer from salary savings to offset supplies services overages	\$0	\$0	
Library	Appropriation to Supplies and Services of California Humanities Grant	\$5,000	\$5,000	\$0
	Appropriation to Supplies and Services of various donations and reimbursement	\$3,861	\$3,861	\$0
<b>TOTAL GENERAL FUND</b>		<b>\$627,291</b>	<b>\$348,731</b>	<b>\$278,560</b>

Other Fund Adjustments (3<sup>rd</sup> Quarter)

<b>Fund</b>	<b>Description</b>	<b>Expense</b>	<b>Revenue</b>	<b>Net Cost</b>
TUT Common Fund	\$229,167 transfer from CIP Project Expenditures and Non-CIP Project Expenditures categories to Supplies and Services to offset Public Works Department project costs	\$0	\$0	\$0
Transportation Sales Tax Fund	Transfer from Development Services (General Fund) to reimburse for SANDAG project costs	\$0	\$3,231	(\$3,231)
	Appropriation of 2016-17 SANDAG Grant Funds and Offsetting Revenues to CIP Expenditures	\$91,493	\$91,493	\$0
States Grant Fund	Appropriation of Literacy Program Grant to Personnel Services	\$7,973	\$7,973	\$0
	Appropriation of State Library Tech Act Grant to Supplies and Services	\$13,476	\$13,476	\$0
States Grant Fund	Transfer of Housing Related Park Project Appropriations and Revenues to interest bearing account for proper grant administration	(\$775,925)	(\$775,925)	\$0
States Grant - Parkway Fund	Transfer of Housing Related Park Project Appropriations and Revenues to interest bearing account for proper grant administration	\$775,925	\$775,925	\$0
Federal Grants Fund	Appropriation of Refund to Supplies and Services	\$800	\$800	\$0
Public Liability Fund	Appropriation of Transfer from General Fund for projected increased litigation costs	\$527,430	\$527,430	\$0

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Open Space District 3	Appropriation to Supplies and Services for Brush Clearing Services	\$10,000	\$0	\$10,000
CV Elite Athlete Training Center	Appropriations for unanticipated one-time expenditures related to the acquisition of the CV Elite Athlete Training Center (CVEATC). These costs are offset by a Transfer in from the General Fund (\$60,000). Appropriations are also being requested for utilities cost that the City is disbursing, however is being reimbursed for contractually (\$170,000).	\$230,000	\$230,000	\$0
Long-term Advances DSF-City	Adjustment for the Public Facilities Development Impact Fee Fund loan repayment of the to the General Fund	(\$1,134,162)	(\$1,134,162)	\$0
AD79-2 (Assessment District)	Appropriation to reimburse General Fund offset by transfer from Fund 474 2010 COP Refinance	\$24,870	\$24,870	\$0
PFDIF - Civic Center Expansion	Adjustment for the Public Facilities Development Impact Fee Fund loan repayment of the to the General Fund	(\$1,134,162)	\$0	(\$1,134,162)
2010 COP Refinance	A Transfer-Out to AD79-2 to reimburse the General Fund for project expenditures previously incurred.	\$24,870	\$0	\$24,870
RDA 2008 TARBS Project Fund - Successor Agency	Appropriation from the available balance of this fund for expenditures related to CIP project number STM241 (Third Avenue Streetscape Phase 2	\$47,596	\$0	\$47,596
<b>TOTAL OTHER FUNDS</b>		<b>(\$1,289,816)</b>	<b>(\$234,889)</b>	<b>(\$1,054,927)</b>

In addition, staff is recommending the following budget adjustments in order to align various funds due to debt refinancing/refunding activities that have taken place in the current fiscal year. These adjustments are described as follows:

Tax Allocation Refunding Bonds, Series 2016 (2016 TARBs) (Fund 666), 2006 Senior Tax Allocation Refunding Bonds, Series A (Fund 663), 2006 Subordinate Tax Allocation Refunding Bonds, Series B (Fund 664) and 2008 Tax Allocation Refunding Bonds (665) - In July of 2016, the 2006 Senior Tax Allocation Refunding Bonds, Series A (Fund 663), the 2006 Subordinate Tax Allocation Refunding Bonds, Series B (Fund 664), and the 2008 Tax Allocation Refunding Bonds (Fund 665) were refinanced by the 2016 TARBs. As a result of the refinancing, staff is requesting an appropriation of \$1,518,250 to the Other Expense category and \$5,000 to the Supplies & Services category of fund 666. The appropriation is necessary to account for the Cost of Issuance, Underwriter's discount, Interest Expense & Contracted Services on the bonds. These appropriations requested for fund 666 will be offset by a reduction in appropriation to funds 663, 664 and 665 in the Other Expense category as well as the Supplies & Services category.

The transfers out related to the debt service in Funds 318 will be reduced as a result of the refunding savings. In addition, the transfers in this fund will now be budgeted in Fund 666 from Fund 663, 664, and 665.



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2016 Refunding Certificates of Participation (2016 COP) (Fund 477) & 2006 Certificates of Participation (2006 COP) (Fund 473) - In July of 2016, the 2006 Certificates of Participation (Fund 473) were refinanced by the 2016 COP. As a result of the refinancing, staff is requesting an appropriation of \$310,710 to the Other Expense category and \$5,100 to the Supplies & Services Category of fund 477. The appropriation is necessary to account for the Cost of Issuance, Underwriters discount, Interest Expense and Contracted Services on the bonds.

In addition, staff is requesting an appropriation of \$8,755,100 to the Other Expense category of fund 473. The appropriation is necessary to account for Principal Expense and debt defeasance. These costs will be fully offset by bond proceeds, which results in a no net impact to fund 473.

The transfers out related to the debt service in Funds 100 and 572 will be reduced as a result of the refunding savings. In addition, the transfers out budgets in these funds will be redirected to Fund 477 from Fund 473.

2016 Lease Revenue Refunding Bonds (2016 LRRB) (Fund 478) & 2010 Certificates of Participation (2010 COP) (Fund 474) - In July of 2016, the 2010 Certificates of Participation (Fund 474) were refinanced by the 2016 LRRB. As a result of the refinancing, staff is requesting an appropriation of \$2,456,740 to the Other Expense category and \$5,000 to the Supplies & Services category of Fund 478. The appropriation is necessary to account for the Cost of Issuance, Underwriters discount, Principal and Interest payments and Contracted Services on the bonds.

In addition, staff is requesting an appropriation of \$26,200,100 to the Other Expense category of fund 474. The appropriation is necessary to account for Principal Expense and debt defeasance. These costs will be fully offset by bond proceeds, resulting in no net impact to fund 474.

The transfers out related to the debt service in Funds 100, 572 and 574 will be reduced accordingly as a result of the refunding savings. In addition, the transfers out budgets in these funds will be redirected to Fund 478 from Fund 474.

The requested adjustments as described above are summarized in the following table:

### **Summary of Refinancing/Refunding Budget Adjustments by Fund**

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Dept/Fund	Supplies & Services	Other Expenses	Transfers Out	Total Expense	Total Revenue	Net Cost
Non-Departmental	\$ -	\$ -	\$ (17,658)	\$ (17,658)	\$ -	\$ (17,658)
<b>TOTAL GENERAL FUND</b>	\$ -	\$ -	\$ (17,658)	\$ (17,658)	\$ -	\$ (17,658)
<b>OTHER FUNDS</b>						
Redv Obligation Retirement Fnd			\$ (12,000)	\$ (12,000)	\$ -	\$ (12,000)
2006 COP Civ Ctr Proj Phase 2	\$ (3,690)	\$ 8,379,548	\$ 1,178,920	\$ 9,554,778	\$ 8,396,453	\$ 1,158,325
2010 COP Refinance	\$ (5,000)	\$ 23,819,025	\$ 2,496,170	\$ 26,310,195	\$ 23,814,665	\$ 2,495,530
2016 COP Civic Center Phase 2	\$ 5,100	\$ 310,710	\$ 8,755,100	\$ 9,070,910	\$ 10,264,260	\$ (1,193,350)
2016 LRRB PFDIF/COP	\$ 5,000	\$ 2,456,740	\$ 26,200,100	\$ 28,661,840	\$ 33,052,110	\$ (4,390,270)
PFDIF - Civic Center Expansion	\$ -	\$ -	\$ (313,173)	\$ (313,173)	\$ -	\$ (313,173)
Corporation Yard Relocation	\$ -	\$ -	\$ (116,941)	\$ (116,941)	\$ -	\$ (116,941)
06 TABs Series A - SA	\$ (5,000)	\$ (1,014,000)	\$ 1,847,000	\$ 828,000	\$ 8,584,510	\$ (7,756,510)
06 TABs Series B - SA	\$ (5,000)	\$ (744,350)	\$ 1,891,300	\$ 1,141,950	\$ 8,359,620	\$ (7,217,670)
08 TABs - SA	\$ (5,000)	\$ (1,525,000)	\$ 2,619,800	\$ 1,089,800	\$ 19,998,920	\$ (18,909,120)
2016 TARBs	\$ 5,000	\$ 1,518,250	\$ 37,465,300	\$ 38,988,550	\$ 11,901,210	\$ 27,087,340
<b>TOTAL OTHER FUNDS</b>	\$ (8,590)	\$ 33,200,923	\$ 82,011,576	\$ 115,203,909	\$ 124,371,748	\$ (9,167,839)
<b>TOTAL BUDGET AMENDMENTS</b>	\$ (8,590)	\$ 33,200,923	\$ 81,993,918	\$ 115,186,251	\$ 124,371,748	\$ (9,185,497)

Retirement Cost (PERS) Savings Adjustments

In the current year, the City chose the pre-payment option with respect to the PERS amount owed to CalPERS for normal retirement costs and unfunded liability for fiscal year 2016/17. As a result of this decision, the City is projected to realize a one-time PERS cost savings estimated at \$1.3 million in the General Fund. Earlier this year, the estimated savings were encumbered to ensure their availability. Staff is recommending that the estimated savings amount be reduced from the Personnel Services category of the General Fund departments. This expenditure reduction will be partially offset with a reduction to the Transfers In category of Non-Departmental for the budgeted \$1.1 million repayment of the Public Facilities Development Impact Fund loan to the General Fund. Staff anticipates the use of this repayment to the General Fund in fiscal year 2018-19, or in future fiscal years, to mitigate estimated budget deficits. Overall, the unanticipated PERS savings results in a net positive impact to the General Fund of \$164,422. The recommended adjustments are summarized on the following table:

Department	PERS Savings Expense Adjustment	Offsetting Revenue Adjustment	Net Cost
City Council	\$ (17,013)	\$ -	\$ (17,013)
City Clerk	\$ (10,289)	\$ -	\$ (10,289)
City Attorney	\$ (35,320)	\$ -	\$ (35,320)
Administration	\$ (24,409)	\$ -	\$ (24,409)
Information Technology Svcs	\$ (30,556)	\$ -	\$ (30,556)
Human Resources	\$ (28,943)	\$ -	\$ (28,943)
Finance	\$ (41,577)	\$ -	\$ (41,577)
Non-Departmental	\$ -	\$ (1,134,162)	\$ 1,134,162
Animal Care Facility	\$ (24,473)	\$ -	\$ (24,473)
Community Development	\$ (21,548)	\$ -	\$ (21,548)
Development Services - GF	\$ (29,304)	\$ -	\$ (29,304)
Police	\$ (517,289)	\$ -	\$ (517,289)
Fire	\$ (244,517)	\$ -	\$ (244,517)
Public Works	\$ (211,413)	\$ -	\$ (211,413)
Recreation	\$ (26,321)	\$ -	\$ (26,321)
Library	\$ (35,612)	\$ -	\$ (35,612)
<b>Total General Fund</b>	<b>\$ (1,298,584)</b>	<b>\$ (1,134,162)</b>	<b>\$ (164,422)</b>

**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**

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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 net budgetary impact to the General Fund of \$96,480 due to: the increase in the transfer to the Public Liability Fund, PERS pre-payment savings and savings from the refinancing/refunding activities, and other adjustments. The other requested changes for General Fund departments have no net impact to the General Fund as the changes are revenue offset or reflect offsetting transfers between expenditure categories.

Other Funds - The recommended changes in the Other Funds not related to the refinancing/refunding activities undertaken by the City, result in a total reduction of \$1.3 million in appropriations to these funds and a reduction of \$0.2 in revenues. The total net impact of these changes is a positive \$1.1 million to the Other Funds.

The recommended changes in the Other Funds related to the refinancing/refunding activities undertaken by the City result in recommended expense adjustments totaling \$115.2 million offset by \$124.4 million in revenues for an overall positive net budgetary impact of \$9.2 million.

#### **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 Third Quarter Financial Report

*Staff Contact: Tessa Nguyen, Finance Department  
David Bilby, Finance Department*

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 March 31, 2017 and is recommending a number of budget amendments; and

WHEREAS, staff is recommending approximately \$0.6 million in new appropriations to various departments in the General Fund that will be offset by \$0.3 million in new revenues; and

WHEREAS, staff is recommending that the Personnel Services expenditure category of the General Fund be reduced by \$1.1 million across various departments as a result of CalPERS retirement cost savings that were generated through the pre-payment option chosen by the City at the beginning of the current fiscal year; and

WHEREAS, the CalPERS savings will be partially offset with a revenue reduction to the Transfers In category of Non-Departmental for the budgeted \$1.1 million repayment of the Public Facilities Development Impact Fund loan to the General Fund resulting in a net positive impact to the General Fund of \$164,422; and

WHEREAS, the combined recommended budget changes to the General Fund will result in a negative net impact to the General Fund of \$96,480 in the current fiscal year including additional savings from refinancing and refunding activities; and

WHEREAS, the appropriations in the TUT Common Fund, State Grants Fund, Federal Grants Fund, Public Liability, Chula Vista Elite Athlete Training Center Fund, Long-Term Advances DSF-City Fund and AD97-2 Fund are revenue offset resulting in no net fiscal impact to these funds; and

WHEREAS, the appropriations for the Open Space District 3 Fund, 2010 COP Refinance Fund, and RDA 2008 TARBS Project Fund – SA will be made from the available balances of these funds negatively impacting these funds by the requested appropriated amounts; and

WHEREAS, Transportation Sales Tax Fund, States Grant-Parkway Fund and the PFDIF - Civic Center Expansion Fund will be positively impacted as a result of a reduction of appropriations or increased revenues resulting from the recommended changes to these funds; and

WHEREAS, staff is requesting authority to make transfers and adjustments to various funds in order to realign said funds as a result of debt refinancing and refunding activities undertaken in the current fiscal year; and

WHEREAS, the requested adjustments to said funds total \$115.2 million in expenditures and are offset by \$124.4 million in revenues resulting in a negative impact of \$9.2 across said 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	Transfers Out	Total Expense	Total Revenue	Net Cost
Non-Departmental		\$ (60,000)	\$ 363,430	\$ 303,430	\$ -	\$ 303,430
Planning & Building Services	\$ (3,231)		\$ 3,231	\$ -	\$ 24,870	\$ (24,870)
Police	\$ 250,000			\$ 250,000	\$ 250,000	\$ -
Public Works	\$ (100,000)	\$ 165,000		\$ 65,000	\$ 65,000	\$ -
Library		\$ 8,861		\$ 8,861	\$ 8,861	\$ -
<b>Total General Fund</b>	<b>\$ 146,769</b>	<b>\$ 113,861</b>	<b>\$ 366,661</b>	<b>\$ 627,291</b>	<b>\$ 348,731</b>	<b>\$ 278,560</b>

#### Summary of Appropriations and/or Transfers for Other Funds

Department/Fund	Personnel Services	Supplies & Services	Other Expenses	Capital	CIP Project Expenditures	Non-CIP Project Expenditures	Transfers Out	Utilities	Total Expense	Total Revenue	Net Cost
Transp Sales Tax Fund	\$ -	\$ -	\$ -	\$ -	\$ 91,493	\$ -	\$ -	\$ -	\$ 91,493	\$ 94,724	\$ (3,231)
TUT Common Fund	\$ -	\$ 229,167	\$ -	\$ -	\$ (111,219)	\$ (117,948)	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Grants Fund	\$ -	\$ -	\$ 800	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 800	\$ 800	\$ -
State Grants Fund	\$ 7,973	\$ 13,476	\$ -	\$ -	\$ (775,925)	\$ -	\$ -	\$ -	\$ (754,476)	\$ (754,476)	\$ -
State Grants -Parkway Fund	\$ -	\$ -	\$ -	\$ -	\$ 775,925	\$ -	\$ -	\$ -	\$ 775,925	\$ 775,925	\$ -
Public Liability Trust	\$ -	\$ 527,430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 527,430	\$ 527,430	\$ -
Open Space District #3	\$ -	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000	\$ -	\$ 10,000
CV Elite Athlete Training Ctr	\$ -	\$ 6,924	\$ -	\$ 53,076	\$ -	\$ -	\$ -	\$ 170,000	\$ 230,000	\$ 230,000	\$ -
Long-term Advances DSF-City	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,134,162)	\$ -	\$ (1,134,162)	\$ (1,134,162)	\$ -
2010 COP Refinance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,870	\$ -	\$ 24,870	\$ -	\$ 24,870
AD97-2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,870	\$ -	\$ 24,870	\$ 24,870	\$ -
PFDIF - Civic Center Expansion	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,134,162)	\$ -	\$ (1,134,162)	\$ -	\$ (1,134,162)
RDA 2008 TARBS ProjFund - SA	\$ -	\$ -	\$ -	\$ -	\$ 47,596	\$ -	\$ -	\$ -	\$ 47,596	\$ -	\$ 47,596
<b>Total Other Funds</b>	<b>\$ 7,973</b>	<b>\$ 786,997</b>	<b>\$ 800</b>	<b>\$ 53,076</b>	<b>\$ 27,870</b>	<b>\$ (117,948)</b>	<b>\$ (2,218,584)</b>	<b>\$ 170,000</b>	<b>\$ (1,289,816)</b>	<b>\$ (234,889)</b>	<b>\$ (1,054,927)</b>

Summary of Appropriations and/or Transfers from Debt Refinance and Refunds

Dept/Fund	Supplies & Services	Other Expenses	Transfers Out	Total Expense	Total Revenue	Net Cost
Non-Departmental	\$ -	\$ -	\$ (17,658)	\$ (17,658)	\$ -	\$ (17,658)
<b>TOTAL GENERAL FUND</b>	\$ -	\$ -	\$ (17,658)	\$ (17,658)	\$ -	\$ (17,658)
<b>OTHER FUNDS</b>						
Redv Obligation Retirement Fnd			\$ (12,000)	\$ (12,000)	\$ -	\$ (12,000)
2006 COP Civ Ctr Proj Phase 2	\$ (3,690)	\$ 8,379,548	\$ 1,178,920	\$ 9,554,778	\$ 8,396,453	\$ 1,158,325
2010 COP Refinance	\$ (5,000)	\$ 23,819,025	\$ 2,496,170	\$ 26,310,195	\$ 23,814,665	\$ 2,495,530
2016 COP Civic Center Phase 2	\$ 5,100	\$ 310,710	\$ 8,755,100	\$ 9,070,910	\$ 10,264,260	\$ (1,193,350)
2016 LRRB PFDIF/COP	\$ 5,000	\$ 2,456,740	\$ 26,200,100	\$ 28,661,840	\$ 33,052,110	\$ (4,390,270)
PFDIF - Civic Center Expansion	\$ -	\$ -	\$ (313,173)	\$ (313,173)	\$ -	\$ (313,173)
Corporation Yard Relocation	\$ -	\$ -	\$ (116,941)	\$ (116,941)	\$ -	\$ (116,941)
06 TABs Series A - SA	\$ (5,000)	\$ (1,014,000)	\$ 1,847,000	\$ 828,000	\$ 8,584,510	\$ (7,756,510)
06 TABs Series B - SA	\$ (5,000)	\$ (744,350)	\$ 1,891,300	\$ 1,141,950	\$ 8,359,620	\$ (7,217,670)
08 TABs - SA	\$ (5,000)	\$ (1,525,000)	\$ 2,619,800	\$ 1,089,800	\$ 19,998,920	\$ (18,909,120)
2016 TARBs	\$ 5,000	\$ 1,518,250	\$ 37,465,300	\$ 38,988,550	\$ 11,901,210	\$ 27,087,340
<b>TOTAL OTHER FUNDS</b>	\$ (8,590)	\$ 33,200,923	\$ 82,011,576	\$ 115,203,909	\$ 124,371,748	\$ (9,167,839)
<b>TOTAL BUDGET AMENDMENTS</b>	\$ (8,590)	\$ 33,200,923	\$ 81,993,918	\$ 115,186,251	\$ 124,371,748	\$ (9,185,497)

Presented by

Approved as to form by

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David Bilby  
Director of Finance/Treasurer

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Glen R. Googins  
City Attorney

## OVERVIEW

This financial report summarizes the City's General Fund's status as of March 31, 2017 and projects the City's financial position 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 condition based on the most recent financial information for fiscal year 2016-17.

## ECONOMIC UPDATE

The National Forecast<sup>1</sup> - In the first quarter report, UCLA Anderson Forecast Senior Economist David Schulman examines the impact of the current expectations of President Trump's economic policies. These include: approximately \$500 billion a year in personal and business tax reductions, a repatriation holiday for accumulated foreign earnings, increased defense and infrastructure spending, Medicaid cuts, relaxed regulations, modest changes to trade and immigration policies, and reductions in food and aircraft exports. Overall Shulman predicts real GDP growth of 2.4 percent, 3 percent and 2.2 percent in 2017, 2018 and 2019, respectively, noting that real growth trails off on a quarterly basis in 2019, as higher interest rates weigh on the economy.

The California Forecast<sup>2</sup> - In the California forecast, Senior Economist Jerry Nickelsburg somewhat walks back his previous prediction that the State will benefit from President elect's Trump's economic proposals calling for increased defense spending and other economic stimuli as momentum for these forces has waned somewhat in the early part of the Trump administration and thus may be delayed due to political developments in Congress. Nickelsburg turns his attention to the possible effect of the Trump administration's new 'rules of engagement' as they pertain to the enforcement of immigration laws within the state and the possible consequences to industries that include gardening and minor home maintenance, construction, non-durable goods manufacturing, and agriculture where most of the undocumented population is employed. Nickelsburg warns of a possible economic backlash should the aggressive enforcement of immigration laws result in employees in key sectors of the State's economy not showing up to work for fear of being deported. Nickelsburg further notes that the change in

enforcement of immigration laws and the current travel ban restrictions may also affect international tourism in the state. This could come true if these policies are perceived as being "less friendly" and a stronger dollar making travel to the United States relatively more expensive.

The San Diego Forecast<sup>3</sup> - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County rose 0.7 percent in January. Three of the components—consumer confidence, help wanted advertising, and the outlook for the national economy—were up sharply during the month. There were also smaller gains in initial claims for unemployment insurance and local stock prices. The only negative component was building permits, which was down significantly.

Overall, the forecast for 2017 continues to be for positive growth at a slower pace. Improvement in the local economy will depend on the policies proposed by the new administration and whether or not they can be enacted. Among the proposals that might benefit the local economy include: spending on infrastructure, tax cuts, and a boost in defense spending. Of these proposals, San Diego could benefit from increased shipbuilding as the Navy expands. On the downside, increased trade barriers, particularly against Mexico and China, could hurt local companies that sell in an international market.

**San Diego Index of Leading Economic Indicators  
San Diego County, 2013 – 2017**



<sup>3</sup> Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, March 3, 2017; retrieved from URL: <http://home.sandiego.edu/~agin/usdle/index.html>

<sup>1</sup> Source: UCLA Anderson Forecast, March 2017

<sup>2</sup> Source: UCLA Anderson Forecast, March 2017



**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 available 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 (Available)	\$ 17.86	\$ 17.86
Revenues & Transfers In <sup>1</sup>	\$ 151.73	\$ 150.91
Expenditures & Transfers Out <sup>2</sup>	\$ (151.95)	\$ (150.60)
Net Pending Appropriations	\$ -	\$ (0.30)
Projected Surplus/Deficit	\$ (0.21)	\$ 0.00
Projected Fund Balance for June 30, 2017	\$ 17.64	\$ 17.86
Percentage of Operating Budget	11.6%	11.8%

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund. The minor deficit 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.

The City's financial outlook improved as of the end of the third quarter review. The improvement in the outlook indicates that the City is projected to complete the current fiscal year within budget.

Although the fiscal year-end projection is balanced, there are additional considerations that may impact how the General Fund will end the current fiscal year. These include the following:

- The Public Liability Expense Fund is anticipated to exceed budget. This trend reflects higher than anticipated litigation and settlement expenses. The

reserves funds for the Public Liability Trust Fund have been exhausted. In order to avoid ending the fiscal year with a deficit in this fund, it is likely that an additional transfer from the General Fund will be needed.

- Addressing unanticipated expenditures that may present themselves in the 4th quarter.
- Addressing the rising levels of Workers Compensation claims.
- Planning for the impact of future fiscal year budget reductions and allowing departments to roll forward savings.

The City's financial performance continues to be mixed at the end of the third quarter as the projections for both City expenditures and revenues exhibited offsetting increases and decreases that resulted in a balanced projection for the end the current fiscal year. The projections for the City's major revenue categories including Property Taxes, Sales Tax, and Utility Users Taxes continued to diverge as projected revenues in these categories stabilized in the third quarter and were relatively unchanged. Projected Franchise Fee revenues however initiated a downward trend and the third quarter projection for these revenues is lower by \$0.6 million in comparison to the amended budget. Lower franchise fees are projected in comparison to the second quarter by approximately \$0.7 million due to the following:

- Cable – In the second quarter report, staff had projected a 25% decrease in cable franchise fees from AT&T, one of two cable utility providers in the City. Although this decline was taken into consideration in the projections, staff was recently made aware of a one-time adjustment of over \$400,000 as a result of a remittance error from Cox cable, the second of the City's cable providers.
- Trash Franchise Fees - Through the second quarter, trash franchise fees increased 3% over the same timeframe from the previous year. In contrast, payments received through the third quarter decreased approximately 1% in comparison to the same time period in fiscal year 2015-16. This caused a downward fluctuation in trash franchise fees of about \$150,000.

- Gas and Electricity - Another major change from the second quarter was a decrease in energy franchise fee revenue. The third quarter projection includes a revised projection for energy related revenues which decreased 6.7% from the previous fiscal year. This equates to a downward projection adjustment of approximately \$174,000 for electricity and gas related franchise fees from the second quarter projection.

Overall, General Fund revenues are projected to be lower by \$0.8 million in comparison to the fiscal year 2016-17 amended budget. The net impact of the projected shortfall is expected to be mitigated by expenditure savings resulting in no adverse impact to the General Fund.

The increasing expenditure trend that resulted in the reported expenditure deficit in the second quarter subsided as City expenditures leveled off in the third quarter. Overall, a \$1.3 million savings in General Fund expenditures is projected as of the end of the third quarter. As previously reported, the 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 anticipated deficits for Personnel Services within the Police and Fire departments are primarily due to overtime costs. The impact of the labor negotiation agreement that was reached with the International Association of Firefighters (IAFF) Local 2180 union is also reflected in the Fire Department's Personnel services projection. The Library Department is also projecting a deficit in Personnel Services due to higher than expected hourly wage costs. The projected Personnel Services costs deficits in these departments will be mitigated through cost containment measures and the appropriation of over-realized revenues as to not affect the General Fund.

Deficits in the Supplies and Services category are projected for Non-Departmental, Police, Public Works, and Fire departments. As previously reported, 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. The Fire Department's deficit is attributed to the rental trailer equipment used to house personnel pending the completion of water damage repairs at fire

station 9. The Fire Department is also projecting an overage in fleet maintenance charges due to cost of repairs and maintenance to the fire department fleet. The Non-Departmental budget supplies and services deficit is due to Winter 2017 Storm event expenses that are reflected in this budget. These expenses will be reimbursed through the Federal claiming process.

## 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 \$0.8 million below the current amended budget as detailed in the following table:

Category	Amended Budget as of 3/31/2017	Q3 Projected as of 3/31/2017	Variance
Property Taxes	\$ 31,174,827	\$ 31,764,989	\$ 590,162
Sales Tax	\$ 32,350,442	\$ 31,914,039	\$ (436,403)
Motor Vehicle License	\$ 19,692,436	\$ 19,965,585	\$ 273,149
Other Revenue	\$ 13,988,147	\$ 14,460,480	\$ 472,333
Transfers In	\$ 11,949,135	\$ 10,814,178	\$ (1,134,957)
Franchise Fees	\$ 11,795,951	\$ 11,156,290	\$ (639,661)
Charges for Services	\$ 7,103,654	\$ 7,826,639	\$ 722,985
Revenue from Other Agencies	\$ 2,090,808	\$ 2,008,106	\$ (82,702)
Utility Users Tax	\$ 6,379,964	\$ 5,724,660	\$ (655,304)
Transient Occupancy Taxes	\$ 3,654,779	\$ 3,654,779	\$ -
Use of Money & Property	\$ 2,731,862	\$ 2,496,323	\$ (235,540)
Other Local Taxes	\$ 5,456,753	\$ 5,639,834	\$ 183,081
Licenses and Permits	\$ 1,321,085	\$ 1,372,347	\$ 51,262
Fines, Forfeitures, Penalties	\$ 1,020,700	\$ 1,082,670	\$ 61,970
Real Property Transfer Tax	\$ 1,023,661	\$ 1,026,765	\$ 3,104
<b>TOTAL REVENUES</b>	<b>\$ 151,734,204</b>	<b>\$ 150,907,684</b>	<b>\$ (826,520)</b>

The major non-discretionary revenue variances are as follows:

- The projection for the Transfers In revenue category was reduced by \$1.1 million from the current amended budget in the third quarter as a result of a loan repayment from the Public Facilities Development Impact Fund that will not be realized in the current fiscal year.
- The Use of Money and Property revenue category is projected to be lower by \$0.2 million as result of lower rental and lease revenue for City Facilities.
- Charges for Services revenues are projected to exceed the current budget by \$0.7 million due to increased:

Police Reimbursements, Fire Construction Fees, Passport Fees, and Developer Fees.

- The Other Revenue category is projected to exceed the budget by \$0.5 million as a result of increased reimbursement revenues.

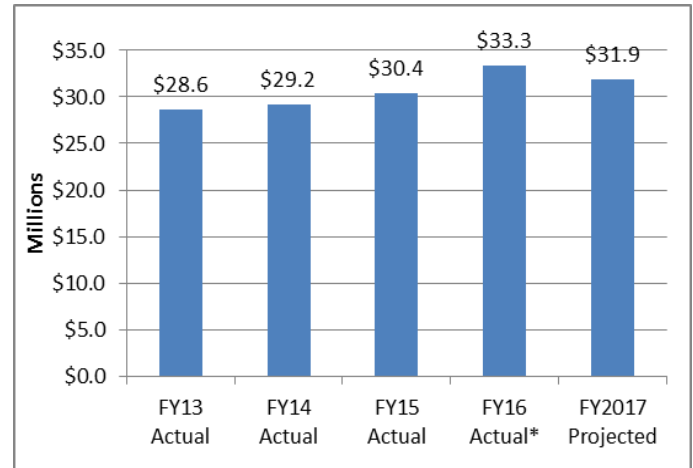
Overall, General Fund revenues are projected to be lower by \$0.8 million from the amended budget in fiscal year 2016-17. However, the net impact of this projected shortfall is expected to be mitigated by expenditure savings resulting in no adverse impact to the General Fund.

General Fund Major Revenues

**Sales Tax** - is projected to be the City’s largest revenue source, representing 21.3% of General Fund revenues in the fiscal year 2016/17 amended budget. HdL Companies, the City’s Sales Tax consultant, has provided data for fourth quarter of calendar year 2016. They report that the change in sales tax receipts between fourth quarter calendar year 2015 and the fourth quarter calendar year 2016 has increased by 1.2% 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 4.4% 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 that declined by 16.7% mainly due to lower fuel prices. These decreases were somewhat offset by other smaller sectors that experienced increases when compared to the same quarter in 2015. These included: Autos and Transportation (4.5%), Restaurants and Hotels (5.2%), and Building and Business and Industry (20.3%).

The Sales Tax revenue projection was revised downward by \$0.4 million from the first quarter projection because of a downward trend. This projection remains unchanged for the third quarter. Staff will continue to monitor the trends in economic activity in an effort to capture accurately the 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.

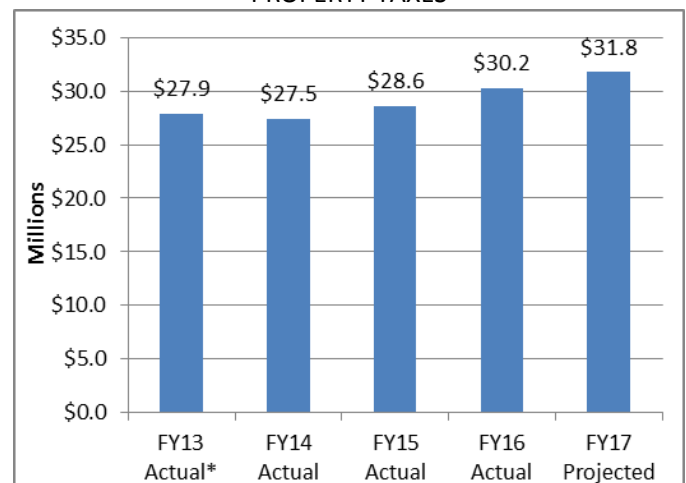
SALES TAX



\*Note: FY2016 Sales Tax revenues include 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 20.9% of General Fund projected revenues for the fiscal year 2016/17. The second quarter property tax revenue projection reflected a \$0.5 million upward revision over the first quarter projection. This revision was based on an improvement in assessed valuations that reflected an increase of 5.7%. The projection for the third quarter property tax projection includes an additional \$0.1 million increase due to Redevelopment Agency pass through revenues. The following chart represents Property Tax revenues since fiscal year 2012/13 and the projection for fiscal year 2016/17.

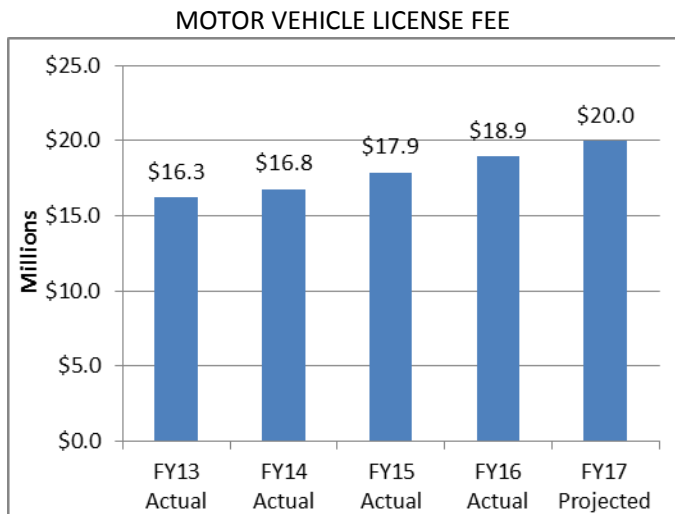
PROPERTY TAXES



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.

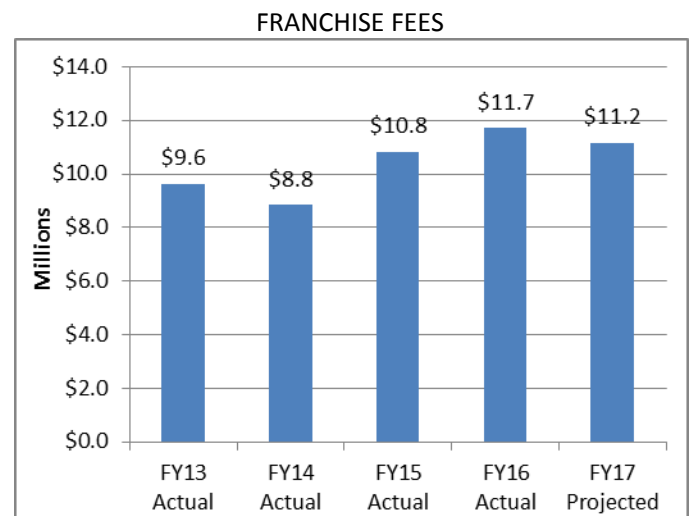
The second quarter projection for VLF revenues was revised upward \$0.3 million to \$20.0 million reflecting the improvement in assessed valuations. The projection for VLF revenues remains unchanged for the third quarter. The following chart represents actual VLF revenues since fiscal year 2012/13 and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



**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.

The projection for franchise fee revenues is lower by \$0.6 million in comparison to the current amended budget. Franchise Fee revenues are projected at \$11.2 million. This is a decrease over fiscal year 2015/16 actuals of

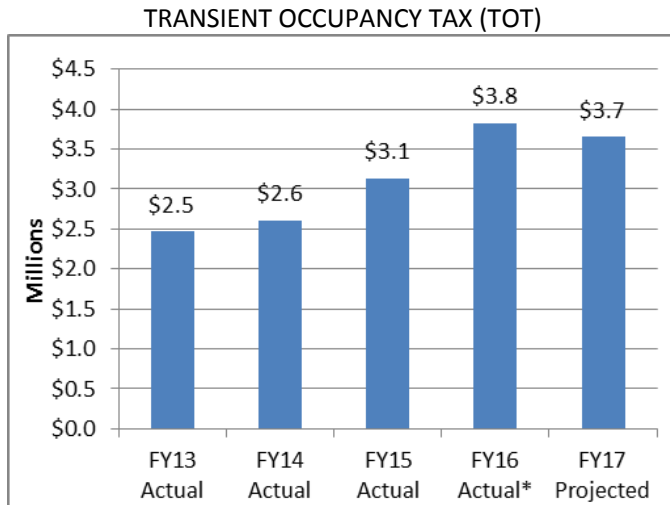
approximately 4.6% due to lower franchise fee remittances from the City's public utility sources. These sources include gas, electricity and the \$0.4 million adjustment due to a remittance error from the Cox cable franchise as previously discussed in the overall summary section above. The following 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 resulting in higher actuals for that fiscal year.



**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 2015 and has subsequently continued.

The potential for significant TOT tax 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 by \$0.02 million in the 2<sup>nd</sup> quarter. The projection for TOT revenues has been based on the revised collection trend.

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

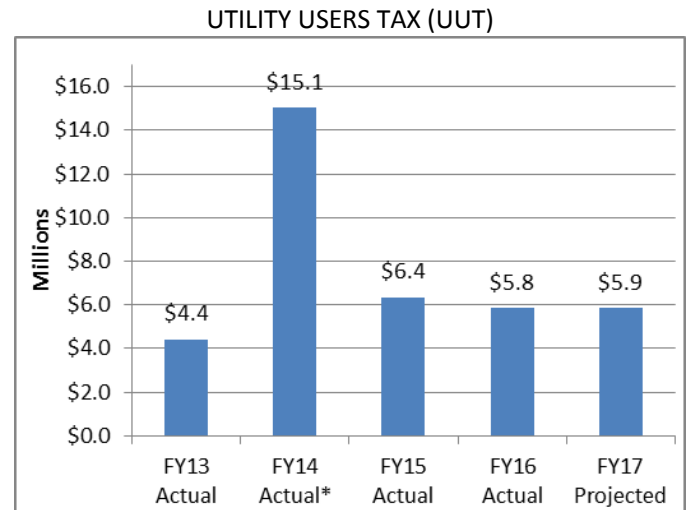


\*Note: FY2016 TOT revenues include \$0.3 million in payments for prior year collections.

**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.

The projection for UUT revenues was revised downward in the second quarter by \$0.5 million reflecting the trend of remittances from the City's utility providers over the current fiscal year. This projection remains unchanged for the third quarter. Fiscal year 2016/17 UUT 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.



\*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 \$5.4 million, and \$5.7 million of prior year encumbrances carried forward into the current fiscal year. As of the end of the third quarter, the amended budget totals \$157.7 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of March 31, 2017. In total, Departments have expended \$109.0 million or 69% of the General Fund budget after 75% of the fiscal year has elapsed.

GENERAL FUND EXPENDITURES AS OF 3/31/2017

Department	Amended Budget as of 3/31/2017	Expended as of 3/31/2017	Variance
City Council	\$ 1,568,272	\$ 1,103,036	\$ 465,236
Boards and Commissions	\$ 19,179	\$ 14,535	\$ 4,644
City Clerk	\$ 1,115,332	\$ 720,642	\$ 394,690
City Attorney	\$ 3,080,051	\$ 2,149,615	\$ 930,436
Administration	\$ 2,093,362	\$ 1,568,204	\$ 525,158
Information Technology Svcs	\$ 4,063,238	\$ 2,455,628	\$ 1,607,610
Human Resources	\$ 2,726,895	\$ 1,893,782	\$ 833,113
Finance	\$ 3,686,918	\$ 2,690,229	\$ 996,689
Non-Departmental	\$ 15,743,554	\$ 6,283,539	\$ 9,460,015
General Fund	\$ 2,998,062	\$ 2,112,746	\$ 885,316
Community Development	\$ 2,260,555	\$ 1,434,093	\$ 826,462
Planning & Building Services	\$ 2,688,047	\$ 1,775,854	\$ 912,193
Police	\$ 50,441,737	\$ 38,388,930	\$ 12,052,807
Fire	\$ 29,392,826	\$ 21,086,669	\$ 8,306,157
Public Works	\$ 27,418,166	\$ 19,419,138	\$ 7,999,028
Recreation	\$ 4,476,996	\$ 3,030,198	\$ 1,446,798
Library	\$ 3,911,276	\$ 2,882,512	\$ 1,028,764
<b>TOTAL EXPENDITURES</b>	<b>\$ 157,684,465</b>	<b>\$ 109,009,350</b>	<b>\$ 48,675,115</b>

The following table reflects the projected expenditures for June 30, 2017. Overall, a \$1.3 million savings in General Fund expenditures is projected as of the end of the third quarter. This improvement is attributed to focused management of the Police department's overtime budget where significant strides were made in reducing the projected deficit that was estimated in the second quarter. The City's financial outlook also improved due to projected retirement cost savings. These savings will be realized due to the City choosing the pre-payment option on the PERS amount owed to CalPERS for normal retirement costs and unfunded liability for fiscal year 2016/17. Overall, the third quarter projection represents an improvement over the previous quarter's projection that reported a deficit in expenditures. The third quarter personnel services cost projection reflects an estimated \$1.3 million PERS cost savings.

Despite the projected savings in the General Fund, some departments are projecting expenditure deficits in the current fiscal year. These include Police, Fire, and Library. The projected deficits for these departments are within the Personnel Services and Supplies and Services expenditure categories. The Police department projects to exceed its personnel services budget by \$0.4 million due to overtime costs. This is in contrast to the \$1.6 million deficit

in personnel services estimated in the second quarter. The improvement in the projection is due to department-wide efforts by the Police Department to curb overtime usage. The Police Department has made a concentrated effort to mitigate their projected Personnel Services deficits through efforts by Police Command staff to increase awareness of the overtime deficit and providing updates of staff efforts to achieve cost savings.

The projected deficit in the Fire department's personnel services budget is \$0.6 million. This deficit is due to overtime costs and the projected \$116,000 impact of the labor negotiation agreement that was reached with the International Association of Firefighters (IAFF) Local 2180 union. The department will offset this deficit with capital cost savings and over-realized revenues generated by fire construction fees.

The projected \$0.1 million deficit in the Library Department's Personnel Services expenditures is due to increased hourly wage expenses that are required to maintain current operation levels. The Library Department will offset this deficit with over-realized passport fee revenues.

Overall, the projected Personnel Services deficits in these departments will be partially offset with savings in other departments that are either under-filling or maintaining vacant positions.

Deficits in the Supplies and Services category are projected within the Police and Fire Departments. The Police department is projected to exceed its supplies and services budget by \$0.2 million. As reported in second quarter, the cause for the deficit is due to ammunition, uniforms, training, and contractual costs. The estimated deficit for the third quarter is a \$0.1 million improvement over the second quarter projection reflecting the Police Department's efforts to mitigate this deficit.

The Fire Department projects to exceed its supplies and services budget by \$0.1 million. The deficit is primarily due to equipment rental charges and fleet maintenance expenses. The equipment rental expenses are due to rental charges for trailers used to house personnel at fire station 9 pending the completion of water damage repair. The fleet maintenance expenses represent the projected charges to maintain/repair the Fire Department's fleet in

the current fiscal year. The department will explore offsetting this deficit by reviewing and closing supplies and services expenditure encumbrances and appropriating over-realized revenues.

The following departments are also projecting deficits within their Supplies and Services budget categories but are not projected to exceed their overall departmental budgets:

The Public Works department is projected to exceed its supplies and services budget by \$0.4 million. This is due to unanticipated expenses related to numerous repairs to City facilities and infrastructure. The department will be transferring a portion of its supplies and services expenditures to other eligible cost centers and appropriating unanticipated revenues in an effort to mitigate this deficit.

A \$0.1 million deficit in the supplies and services category of the Non-Departmental budget is projected due to Winter 2017 Storm event expenses that are captured in this projection. This deficit is projected to be largely offset by revenues that will be received upon completion of the damage claims process by the City.

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

Department	Amended Budget as of 3/31/2017	Q3 Projected as of 3/31/2017	Variance
City Council	\$ 1,568,272	\$ 1,505,196	\$ 63,076
Boards and Commissions	\$ 19,179	\$ 14,535	\$ 4,644
City Clerk	\$ 1,115,332	\$ 937,068	\$ 178,264
City Attorney	\$ 3,080,051	\$ 2,901,032	\$ 179,020
Administration	\$ 2,093,362	\$ 2,040,057	\$ 53,305
Information Technology Svcs	\$ 4,063,238	\$ 3,844,930	\$ 218,308
Human Resources	\$ 2,726,895	\$ 2,528,858	\$ 198,037
Finance	\$ 3,686,918	\$ 3,521,557	\$ 165,361
Non-Departmental	\$ 15,743,554	\$ 15,313,558	\$ 429,996
Animal Care Facility	\$ 2,998,062	\$ 2,937,540	\$ 60,522
Economic Development	\$ 2,260,555	\$ 2,140,667	\$ 119,888
Development Svcs - GF	\$ 2,688,047	\$ 2,482,470	\$ 205,577
Police	\$ 50,441,737	\$ 50,978,980	\$ (537,243)
Fire	\$ 29,392,826	\$ 29,962,500	\$ (569,674)
Public Works	\$ 27,418,166	\$ 26,985,520	\$ 432,645
Recreation	\$ 4,476,996	\$ 4,319,939	\$ 157,057
Library	\$ 3,911,276	\$ 3,928,172	\$ (16,896)
<b>TOTAL EXPENDITURES</b>	<b>\$ 157,684,465</b>	<b>\$ 156,342,578</b>	<b>\$ 1,341,887</b>

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
<b>Human Resources</b>			
Jul-16	Transfer for copier lease	\$352	Supplies and Services to Capital
<b>Animal Care Facility</b>			
Sep-16	Transfer to cover contract expenditures	\$15,000	Personnel Services to Supplies and Services
<b>City Clerk</b>			
Nov-16	Transfer to cover various supplies and services	\$8,600	Capital to Supplies and Services
<b>Administration</b>			
Dec-16	Transfer for Communications Intern	\$15,000	Supplies and Services to Personnel Services
<b>Finance</b>			
Feb-17	Transfer for Office Furniture	\$11,461	Personnel Services to Supplies and Services
Feb-17	Transfer for Office Modifications	\$6,000	Personnel Services to Supplies and Services
<b>Police</b>			
Mar-17	Transfer for Boiler Control Repairs	\$15,000	Utilities to Supplies and Services
<b>Public Works</b>			
Mar-17	Transfer for Soil/Sod amendments	\$15,000	Utilities to Supplies and Services

**Mid-Year Budget Amendments**

Mid-year expenditure appropriations approved through March 31, 2017 total \$5,485,361. The City Council approved changes to budgeted revenues of \$5,272,874. Combined, these changes result in a net negative of \$212,487.

The following table summarizes the City Council approved budget amendments through the third 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) (Animal Care Facility)	\$ -	\$ -	\$ -
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)	\$ -	\$ (54,092)	\$ 54,092
11/15/2016	Addition of Supervising Public Safety Analyst (Police)	\$ -	\$ 59,572	\$ (59,572)
12/6/2016	FY 17 Measure P Revenues	\$ 3,200,000	\$ 3,200,000	\$ -
1/10/2017	Addition of Fiscal Office Spe. (Economic Development)	\$ 27,549	\$ 27,549	\$ -
1/10/2017	(Economic Development/Non-Departmental)	\$ 86,000	\$ 86,000	\$ -
1/10/2017	Business Attraction/Retention (Economic Development/Non-Departmental)	\$ 200,000	\$ 200,000	\$ -
1/17/2017	In County Contract Services (Animal Care Facility)	\$ 25,000	\$ 25,000	\$ -
2/7/2017	2nd Quarter Budget Adjustments (Various)	\$ 119,454	\$ 359,454	\$ (240,000)
	<b>Total Appropriations to Date</b>	<b>\$ 5,272,874</b>	<b>\$ 5,485,361</b>	<b>\$ (212,487)</b>