CITY COUNCIL AGENDA STATEMENT

CITY OF CHULA VISTA

May 26, 2020 File ID: **20-0177**

TITLE

CONSIDERATION OF RECEIVING THE QUARTERLY FINANCIAL REPORT AND MAKING VARIOUS BUDGET AMENDMENTS

A. QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDING MARCH 31, 2020

B. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2019/20 BUDGET TO ADJUST FOR VARIANCES AND APPROPRIATING FUNDS THEREFOR (4/5 VOTE REQUIRED)

C. RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA AMENDING THE FISCAL YEAR 2019/20 CIP PROGRAM BUDGET BY ESTABLISHING A NEW CIP PROJECT, PRK0337 "SALT CREEK SOCCER ARENA"; AND APPROPRIATING FUNDS THEREFOR (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council receive the report and adopt the resolutions.

SUMMARY

Quarterly Financial Report

The Finance Department, in collaboration with City departments, prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes as of March 31, 2020. 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 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 by the City Council, 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 and adjustments to be completed. This report discusses budget adjustments that staff recommends in the General Fund as well as various other funds to address identified fiscal issues.

In addition to the Fiscal Year 2019/2020 budget recommendations for City funds, this report includes an update on Measure A and Measure P actual revenues and expenditures as of March 31, 2020.

COVID-19 Budgetary Impact

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in China, and has

since spread worldwide. On March 19, 2020, the Governor issued a statewide Order directing all residents to stay home and effected City operations and businesses throughout the State.

As a result of COVID-19, closure or limited access to City facilities including Parks, Libraries, and other non-essential buildings are currently underway. Non-Essential businesses within the State have either closed or have limited operations. Tourism and travel activities are limited, and a reduction of hotel operations have occurred. Entertainment events at venues within the City have ceased. No definitive date of when shelter-in-place order will be lifted, and if or when things will go back to "normal".

The revenue categories that have the most sensitivity to the current economic environment are Sales related taxes, Transient Occupancy Taxes, and charges for services that are within the Other Revenue category. Due to the closure of Parks and Recreation as well as Library facilities have resulted in the layoff of hourly employees as of March, and increase in other costs for public safety and other departments.

Establishing New CIPs

Salt Creek Soccer Arena - PRK0337

The City received a refund of $74,857 from the contractor who installed the artificial turf at the Salt Creek Soccer Arena due to faulty materials. Parks and Recreation department will like to appropriate those funds to repair the damages to the artificial turf.

Approval of the proposed resolution would amend the Fiscal Year 2019/2020 CIP Program Budget by establishing a new CIP, PRK0337, "Salt Creek Soccer Arena"; appropriate revenues of $74,857 in the Capital Improvement Projects Fund; and appropriate $74,857 from the Capital Improvement Projects Fund to PRK0337.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed project for compliance with the California Environmental Quality Act (CEQA) and has determined that the Project qualifies for a Categorical Exemption pursuant to State CEQA Guidelines Section 15301 Class 1 (Existing Facilities), Section 15302 Class 2 (Replacement or Reconstruction), and Section 15061(b)(3) because the proposal involves negligible or no expansion of use, would not result in a significant effect on the environment or create a cumulative impact. Thus, no further environmental review is required.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable

DISCUSSION

The Third Quarter Report is developed using nine months of recorded (July 2019 through March 2020) activity for Fiscal Year 2019/2020 as of March 31, 2020. The data in this report is the most current data available; however, the data and projections are subject to change.

This report will provide summary information for the following areas:

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

Attachment A – Quarterly Financial Report provides additional information for the financial outlook for the General Fund for the current fiscal year including City revenues and expenditures.

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

General Fund Overview

The City's FY 2020 financial outlook has changed considerably due to the economic impact of COVID-19. Based on current year-end projections, revenues are anticipated to decrease by $6.4 million, to $194.0 million, and expenditures are projected to decrease by $2.5 million, to $204.4 million. The decrease of both revenues and expenses will result in a reduction of approximately $10.4 million overall, and with the $6.6 million of prior year encumbrances, will result in a net decrease of $3.8 million to the year-end projected fund balance. The Economic Contingency Reserve can be used to balance the current projected $3.8 million negative fund balance.

General Fund Revenues

The significant changes to the $6.4 million projected decrease of revenues is the reduction of Sales Tax revenue projections based upon updated information from the City's sales tax consultant. The City's Sales Tax revenue projection is reflecting a decrease of $3.1 million. Measure P and Measure A funds are projected to decrease by a total of $2.4 million. Transient Occupancy Taxes revenues are anticipated to decrease by $1.1 million. Additional information on General Fund revenue and expenditures are provided in the attachment to this report.

General Fund Expenditures

The significant changes to the $2.5 million projected decrease of expenditures is a reduction of the transfer out from the General Fund to the respective Measure P and Measure A Funds by $2.4 million. As a result of COVID-19, Parks and Recreation Department and the Library Department facility closures is estimating a savings of $1.2 million. The Police and Fire Departments are projected to go over budget by $1.6 million primarily for overtime related expenses.

General Fund Year-End Fund Balance

Staff anticipates ending the fiscal year with a negative fund balance of $3.8 million based on the Third Quarter Projection. Staff will recommend appropriation adjustments with the Fourth Quarter Report when actual expenses and revenues have been recorded as part of the year-end closing process. It is anticipated that the projections listed in this report will change as more data becomes available.

Fiscal Year 2019/20 General Fund Projected Year-End Fund Balance (in millions)

$	194.0	Projected Revenues
	6.6	Prior Year Encumbrances*
	(204.4)	Projected Expenses
$	(3.8)	Projected Year-End Fund Balance

*Planned Use of Fund Balance

Economic Contingency Reserve

The Economic Contingency Reserve are monies set aside to mitigate service impacts during a significant downturn in the economy which impacts City revenues such as sales tax, property tax, business license tax, and other related revenues that are tied to economic conditions. The Fiscal Year 2019 ending reserve balance is $7.3 million, which may be used as a result of the current economic climate to balance the current fiscal year.

Fiscal Year 2019/20 General Fund Projected Use of Reserves (in millions)		
$	7.3	Economic Contingency Reserve
	(3.8)	Projected Year-End Balance
$	3.5	Projected Year-End Economic Contingency Reserve

Additional information on General Fund revenue and expenditures are provided in the attachment to this report.

Major General Fund Revenues

The City's major General Fund revenues, which make up approximately 75% of the City's General Fund revenues, are projected to be under the FY 2020 Revised Budget amounts by approximately $6.9 million as a result of decreased projected for Sales Tax, Measure A Sales Tax, Measure P Sales Tax, Transient Occupancy Taxes, and a slight reduction to the Utility Users Taxes revenue projection (based on current trends). All other Major revenues are anticipated to meet their projected revenue year-end estimates. Table 1: Fiscal Year 2019/2020 Major General Fund Revenue Projections summarizes the revenue projections.

Table 1 - Fiscal Year 2019/2020 Major General Fund Revenue Projections

Revenue Category	FY 2020 Revised Budget	FY 2020 Projected Budget	Variance
Property Tax	$ 36,361,038	$ 36,361,038	$ -
Sales Tax	$ 35,127,600	$ 32,056,178	(3,071,422)
Measure P Sales Tax	$ 19,000,000	$ 17,759,500	(1,240,500)
Measure A Sales Tax	$ 19,000,000	$ 17,780,500	(1,219,500)
PT in lieu of Motor Vehicle License Fee (VLF)	$ 23,667,402	$ 23,667,402	-
Franchise Fees	$ 11,925,678	$ 11,925,678	-
Utility Users Taxes	$ 5,633,423	$ 5,333,423	(300,000)
Transient Occupancy Tax	$ 4,357,922	$ 3,272,340	(1,085,582)
Total	**$ 155,073,063**	**$ 148,156,060**	**$ (6,917,004)**

The remaining General Fund revenues (not represented in Table 1) are anticipated to be below the Revised Budget amounts. All the General Fund revenue categories are shown in Attachment A. The overall General

Fund revenues are projected to be below the Revised Budget by approximately $6.4 million.

Major General Fund Expenditures

The City's major General Fund expenditure categories (Personnel Services, Supplies and Services, Utilities, and Transfers Out), which make up approximately 98% of the City's General Fund expenditures, are shown in Table 2. As of the end of the third quarter, Personnel Services expenditures are projected to be slightly under budget by approximately $0.3 million, Supplies and Services are projected to be under budget by approximately $0.2 million, and Utilities are projected to exceed budget by approximately $0.4 million, and Transfers Out projected to be under budget by $2.5 million resulting in a net decrease of approximately $2.6 million in Major General Fund expenses. Staff will continue to monitor expenditures to identify any costs that might continue to trend higher than anticipated and propose future actions to address these expenses. Additionally, information related to departmental expenditures is provided in the attachment.

The major expense categories are shown in the following table and additional information related to departmental expenditures is provided in the attachment.

Table 2 - Fiscal Year 2019/2020 General Fund Major Expenditure Projections

Revenue Category	FY 2020 Revised Budget	FY 2020 Projected Budget	Variance
Personnel Services	$ 133,388,674	$ 133,102,192	$ (286,482)
Supplies and Services	17,344,369	17,130,236	(214,133)
Utilities	5,018,305	5,372,486	354,181
Transfers Out	46,954,416	44,494,416	(2,460,000)
Total	**$ 202,705,764**	**$ 200,099,330**	**$ (2,606,435)**

The remaining General Fund expenditure categories (not represented in Table 2) are anticipated to be under the Revised Budget by approximately $0.1 million. Overall, total projected expenditures are anticipated to total $204.4 million, a decrease of $2.5 million from the Revised Budget of $206.9 million. Staff continues to monitor expenses for potential impacts to current and future budgets.

One item of note is the assumed investment returns from the City's pension system (California Public Employees' Retirement System - CalPERs). One of the factors which influence the City's annual pension contribution (payment) is the annual investment return rate from the CalPERs investment portfolio. In calculating the City's pension contribution, CalPERs assumes a 7.00% return rate on their investments. However, in the current financial environment, CalPERs investments may not reach their return rate target. This would create a negative impact (increased contribution amount) on the projected future pension payments for the City. Staff will continue to monitor this issue and will make any necessary adjustments to the pension payment projections as more information is made available.

General Fund Adjustments

At the conclusion of the third quarter of FY 2020, the proposed adjustments are minor inter- Department transfers. The proposed adjustments are anticipated to result in a net zero impact to the General Fund. The following chart provides a summary of the proposed budgetary adjustments.

Table 3 - General Fund Budget Adjustments Summary - 3rd Quarter Fiscal Year 2019/2020

DEPARTMENT	Footnote	PERSONNEL SERVICES	SUPPLIES & SERVICES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
GENERAL FUND						
Police	1	$ 55,092	$ -	$ 55,092	$ -	$ 55,092
Police	1	(55,092)	-	(55,092)	-	(55,092)
Fire	2	-	35,840	35,840	-	35,840
Fire	2	-	(35,840)	(35,840)	-	(35,840)
TOTAL GENERAL FUND		**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

1. Police Deparment - Transfer expense appropriations of $55,092 for Personnel Services from Org Key 1453160 (Police Dispatch) to Org Key 1451093 (Traffic Enforcement).
2. Fire Deparment - Transfer expense appropriations of $35,840 for Supplies and Services from Org Key 1501187 (Fire Academy) to Org Key 1501179 (Fire Training).

Other Funds Adjustments

The following recommended adjustments are for funds outside of the General Fund. The proposed adjustments, displayed in Table 4, have a net cost of approximately $0.7 million, which are entirely funded with available fund balances or current year revenues. A brief discussion follows the table on the major proposed adjustments.

Table 4 - Other Funds Budget Admendments Summary - 3rd Quarter Fiscal Year 2019/2020

DEPARTMENT	Footnote	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	OTHER CAPITAL	CIP BUDGET	INTERNAL SERVICE	TRANSFERS OUT	UTILITIES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
OTHER FUNDS												
2016 Measure P Sales Tax	1	$ -	$ -	$ -	$ 79,987	$ -	$ -	$ -	$ -	$ 79,987	(79,987)	$ -
Transportation Grants-Gas Tax	2	-	-	-	120,000	-	-	-	-	120,000	-	120,000
Advanced Life Support Program	3	-	45,000	-	-	-	-	-	-	45,000	-	45,000
Traffic Safety	4	-	19,000	-	-	-	-	-	-	19,000	-	19,000
Other Grants	5	(13,000)	(413,000)	423,000	3,000	-	-	-	-	-	-	-
Local Grants	6	-	32,208	-	-	-	-	-	-	32,208	-	32,208
Federal Grants	7	-	150,000	-	-	-	-	348,863	-	498,863	(498,863)	-
State Grants	8	10,447	-	-	-	-	-	-	-	10,447	(10,447)	-
Housing Successor Agency	9	-	-	408,184	-	-	-	-	-	408,184	-	408,184
CFD 09M ORV II Brookfield-Shea	10	-	1,405	-	-	-	-	-	-	1,405	(1,405)	-
Central Garage Fund	11	(50,000)	50,000	-	-	-	18,000	-	(18,000)	-	-	-
City Jail	12	(50,000)	50,000	-	-	-	-	-	-	-	-	-
Development Services Fund	13	(64,000)	64,000	-	-	-	-	-	-	-	-	-
Public Facilities DIF	14	-	25,176	-	55,810	-	-	-	-	80,986	-	80,986
Capital Improvement Projects	15	-	-	-	-	74,857	-	-	-	74,857	(74,857)	-
TOTAL OTHER FUNDS		**$ (166,553)**	**$ 23,789**	**$ 831,184**	**$ 258,797**	**$ 74,857**	**$ 18,000**	**$ 348,863**	**$ (18,000)**	**$ 1,370,937**	**$ (665,559)**	**$ 705,378**

Other Fund Amendment Footnotes

1. 2016 Measure P Sales Tax - Appropriate revenues and expenses of $79,987 from insurance reimbursements for damaged Police vehicles.
2. Transportation Grants-Gas Tax Fund - Increase expense appropriations of $120,000 from available fund balance for vehicle purchase.
3. Advance Life Support Program Fund - Increase expense appropriations of $45,000 from available fund balance for Supplies and Services.
4. Traffic Safety Fund - Increase expense appropriations of $19,000 from available fund balance for purchase of traffic supplies.
6. Local Grants - Increase expense appropriations of $32,208 from available fund balance from the Inmate Welfare Fund for the Police Department for Supplies and Services.
7. Federal Grants - Appropriate revenues and expenses of $150,000 from Asset Seizure funds for training, software maintenance fees, and contractual services for the Police Department; and,
8. State Grant Funds - Appropriate revenues and expenses of $10,447 for the Literacy Grant for the Library Department.
9. Housing Successor Agency Fund - Increase expense appropriations by $408,184 from available Fund Balance to refund an overpayment from the Community Villas Housing project.
10. CFD 09M ORV II Brookfield-Shea Fund - Appropriate revenues and expenses of $1,405 for insurance reimbursements.
11. Central Garage Fund - Transfer expense appropriations of $50,000 from salary savings to Supplies and Service for automotive maintenance expenses, and transfer expense appropriations of
12. City Jail Fund - Transfer expense appropriations of $50,000 from Salary Savings to supplies and repair and maintenance of equipment.
13. Development Services Fund - Transfer expense appropriations of $64,000 from Salary Savings to Contractual Services.
14. Public Facilities DIF Fund - Increase expense appropriations of $55,810 for purchase of vehicle for Parks and Recreation Department, and $25,176 for contractual services from available fund
15. Capital Improvements Projects Fund - Appropriate revenues and expenses of $74,857 from a vendor settlement for faulty turf and to utilize the proceeds to purchase new turf (PRK0337).

The significant adjustments to the Other Funds are described below.

- Federal Grants – Appropriate revenues and expenses of $150,000 from Asset Seizure funds for training, software maintenance fees, and contractual services for the Police Department; and, appropriate revenues and expenses of $348,863 for the 2020 award of the FEMA SAFER Grant for personnel costs for the Fire Department.

- Housing Successor Agency Fund - Increase expense appropriations by $408,184 from available Fund Balance to refund an overpayment from the Community Villas Housing project.
- Transportation Grants-Gas Tax Fund - Increase expense appropriations of $120,000 from available fund balance for vehicle purchase.

Measure P Fund Overview

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

The following table provides an update on the allocation and expenditures (to date totals) for the Measure P Fund.

Table 5 - Measure P
Citywide Infrastructure, Facilities and Equipment Expenditure Plan
1/2 cent Sales Tax Revenues over 10 year period
Summary Table as of 3/31/20

Total by Major Category	10-Year Timeframe	To Date Totals	Remaining Balance
REVENUES:			
Sales Tax Revenues	194,419,278	54,613,949	139,805,329
Investment Earnings	-	2,661,737	(2,661,737)
Miscellaneous	-	187,096	(187,096)
Total Revenues	**$ 194,419,278**	**$ 57,462,782**	**$ 136,956,496**
EXPENDITURES:			
Fire Stations Repairs/Replacement	26,210,449	2,190,529	24,019,920
Fire Response Vehicles	19,847,580	6,472,749	13,374,831
Fire Safety Equipment	5,197,913	642,036	4,555,877
Total Fire Services	**$ 51,255,942**	**$ 9,305,314**	**$ 41,950,628**
Police Response Vehicles	12,951,470	3,092,404	9,859,066
Public Safety Communication Systems	8,678,862	2,509,764	6,169,098
Police Facility Repairs	2,101,000	740,349	1,360,651
Police Equipment	611,145	173,166	437,979
Total Police Services	**$ 24,342,477**	**$ 6,515,683**	**$ 17,826,794**
Streets	24,474,861	17,045,924	7,428,937
Other Public Infrastructure	14,854,295	8,402,906	6,451,389
Sports Fields and Courts	16,966,595	713,475	16,253,120
Non-Safety Vehicles	11,195,100	4,258,010	6,937,090
Recreation and Senior Centers	15,076,617	1,691,714	13,384,903
Civic Center and South Libraries	3,250,000	1,460,931	1,789,069
Other Public Facilities	6,036,000	1,845,392	4,190,608
Traffic Signal Systems	7,000,000	183,093	6,816,907
Park Infrastructure	10,307,740	1,891,016	8,416,724
Citywide Network Replacement	2,080,700	2,070,823	9,877
Citywide Telecommunications	2,155,602	1,840,838	314,764
Total Infrastructure	**$ 113,397,510**	**$ 41,404,122**	**$ 71,993,388**
Total Proposed Allocations	**$ 188,995,929**	**$ 57,225,119**	**$ 131,770,810**

Measure A Fund Overview

In June 2018, the citizens of Chula Vista approved Measure A which enacted the ½ cent sales tax to support public safety staffing. The measure imposed a ½ cent transaction and use tax (sales tax) on retail sales within the City of Chula Vista and became effective on October 1, 2018. Concurrent with the approval of placing the measure on the ballot, the City Council adopted an Intended Public Safety Expenditure Plan for the anticipated revenues generated from the measure. By doing so, the City Council expressed its intent to spend

the sales tax revenues exclusively on the critical staffing needs of the City's police and fire departments, including necessary equipment and support provided by other City departments.

The following table provides an update on the allocation and expenditures (to date totals) for the Measure A funds.

Table 6 - Measure A
Intended Public Safety Expenditure Plan
Phase I - Critical Needs
Summary Table as of 3/31/2020

POLICE DEPARTMENT	FY 2020 Budget	As of 3/31/2020	Remaining Balance
REVENUES:			
Transfer In	9,500,000	6,250,504	3,249,496
Total Police Department Revenues	**$ 9,500,000**	**$ 6,250,504**	**$ 3,249,496**
EXPENDITURES:			
Personnel Costs	4,211,773	1,720,643	2,491,130
Supplies & Services	359,463	43,736	315,728
Other Expenses	356,250	-	356,250
Other Capital	165,000	-	165,000
Total Police Department Expenditures	**$ 5,092,486**	**$ 1,764,378**	**$ 3,328,108**
FIRE DEPARTMENT	**FY 2020 Budget**	**As of 3/31/2020**	**Remaining Balance**
REVENUES:			
Transfer In	9,587,216	6,250,504	3,336,712
Total Fire Department Revenues	**$ 9,587,216**	**$ 6,250,504**	**$ 3,336,712**
EXPENDITURES:			
Personnel Costs	5,904,374	2,855,572	3,048,802
Supplies & Services	499,865	235,607	264,258
Other Expenses	356,250	-	356,250
Other Capital	-	448,118	(448,118)
Transfers Out	218,942	-	218,942
Total Fire Department Expenditures	**$ 6,979,431**	**$ 3,539,297**	**$ 3,440,134**
Total Measure A Revenues	**$ 19,087,216**	**$ 12,501,007**	**$ 6,586,209**
Total Measure A Expenditures	**$ 12,071,917**	**$ 5,303,675**	**$ 6,768,242**

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 1,000 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.

CURRENT-YEAR FISCAL IMPACT

The Third Quarter Monitoring Report presents updates to revenue and expenditure projections as of March 31, 2020. As a result of the revised projected revenues and expenditures within this report, the decrease of both revenues and expenses will result in a reduction of approximately $10.4 million overall, with the $6.6 million of prior year encumbrances, and will result in a net decrease of $3.8 million to the year-end projected fund balance. It is anticipated that the negative $3.8 million year-end projected fund balance will be offset by the Economic Contingency Reserve that currently has a balance of $7.3 million. However, if the economic impact is worse than the Third Quarter projections the Economic Contingency Reserve may be depleted. Staff will continue to monitor actual revenue receipts and expenditures to determine if any budget adjustments will be needed in the future.

Across the non-General Fund funds, multiple actions are recommended for the third quarter, leading to a net cost of approximately $0.7 million to non-General Fund funds. These costs are to be addressed with fund balances or revenues from current year services.

Approval of the proposed resolution would amend the Fiscal Year 2019/2020 CIP Program Budget by establishing a new CIP, PRK0337, "Salt Creek Soccer Arena"; appropriate revenues of $74,857 in the Capital Improvement Projects Fund; and appropriate $74,857 from the Capital Improvement Projects Fund to PRK0337.

ONGOING FISCAL IMPACT

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

ATTACHMENTS

1. FY2020 Third Quarter Financial Report

Staff Contact: David Bilby, Finance Department

Overview

This financial report summarizes the City's General Fund financial position for Fiscal Year 2019-2020 through March 31, 2020, and projections for the remainder of the fiscal year ending on June 30, 2020. 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.

At the end of the third quarter, the City's financial outlook is projected to decrease as revised revenue projections below revised expenditure projections. The primary driver for the decrease is due to the economic impacts of COVID-19. City's Sale Tax revenue projection based upon updated information from the City's sale tax consultant shows a significant decline for the remainder of this fiscal year. Based on current year-end projections, revenues are anticipated to decrease by $6.4 million, to $194.0 million, and expenditures are projected to decrease by $2.5 million, to $204.4 million. The decrease of both revenues and expenses will result in a reduction of approximately $10.4 million overall, and with the $6.6 million of prior year encumbrances, will result in a net decrease of $3.8 million to the year-end projected fund balance.

Staff is anticipating utilizing the Economic Contingency reserve that currently has a balance of $7.3 million to mitigate the projected $3.8 million decrease to the year-end fund balance, which will leave a projected balance of $3.5 million remaining in the Economic Contingency Reserve. However, the budgetary impact of COVID-19 is still evolving and may change the year-end projections.

Revenues

The following table shows both the Fiscal Year 2019-2020 General Fund Revised Revenue Budget, and the year-end Projected Revenue Budget. The Projected Budget includes all the change in the projections included in this report. Overall, General Fund revenues are projected to decrease by approximately $6.4 million below the Revised Budget amounts.

The decrease in revenue is due to several significant factors, including a decrease of $3.1 million to the City's Sales Tax projection. The adjusted projection is based on updated information provided by HdL, the City's outside sales tax consultant. HdL adjusted the projections based upon prior year trends and information collected from multiple sources. HdL also estimated a decrease of Measure P and Measure A revenues at $1.2 million each.

The projections by revenue category are shown in the following table.

Fiscal Year 2019/2020 General Fund Revenue Projections

Revenue Category	FY 2020 Revised Budget	FY 2020 Projected Budget	Variance
Property Taxes	$ (36,361,038)	$ (36,361,038)	$ -
Sales Tax	(35,127,600)	(32,056,178)	3,071,422
Measure P Sales Tax	(19,000,000)	(17,759,500)	1,240,500
Measure A Sales Tax	(19,000,000)	(17,780,500)	1,219,500
PT in lieu of Motor Vehicle License Fee (VLF)	(23,667,402)	(23,667,402)	-
Franchise Fees	(11,925,678)	(11,925,678)	-
Utility Users Tax	(5,633,423)	(5,333,423)	300,000
Transient Occupancy Taxes	(4,357,922)	(3,272,340)	1,085,582
Development Revenue	(1,482,480)	(1,482,480)	-
License and Permits	(1,551,436)	(1,551,436)	-
Fines, Forfeitures, Penalties	(1,258,439)	(1,193,997)	64,442
Use of Money & Property	(3,101,227)	(3,101,227)	-
Other Local Taxes	(2,598,193)	(2,406,088)	192,105
Police Grants	(812,940)	(812,940)	-
Revenue from Other Agencies	(1,301,869)	(1,294,636)	7,233
Charges for Services	(6,956,535)	(7,322,345)	(365,810)
Interfund Reimbursements	(10,623,837)	(11,126,558)	(502,721)
Other Revenue	(1,564,265)	(1,451,757)	112,508
Transfers In	(14,084,667)	(14,084,667)	-
TOTAL REVENUES	**$ (200,408,951)**	**$ (193,984,192)**	**$ 6,424,761**

It should be noted that the projected revenue decreases to Measure P and Measure A revenue for approximately $1.2 million each will result in a decrease of the corresponding transfer to the Measure P and Measure A Funds, decreasing the General Fund expense by approximately $2.4 million.

The City's Transient Occupancy Taxes are projected to decrease by $1.1 million on a budgetary basis due to the decrease of hotel related activities as a result of COVID-19.

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

reports.

Expenditures

The following table reflects the Fiscal Year 2019-2020 General Fund Revised Budget expenditures and actual expenditures by department as of March 31, 2020. In total, departments have expended approximately $144.2 million or 70% of the General Fund Revised Budget after 75% of the fiscal year has elapsed. Overall, departmental expenditures were tracking consistently with the total Revised Budget as of the end of the third quarter.

Fiscal Year 2019/2020 General Fund Expenditures by Department

Department	FY 2020 Revised Budget	Expended as of 3/31/2020	Variance
City Council	$ 1,567,117	$ 1,086,328	$ (480,789)
Boards & Commissions	11,841	4,923	(6,918)
City Clerk	1,183,620	780,583	(403,037)
City Attorney	3,293,333	2,349,662	(943,670)
Administration	2,515,326	1,779,353	(735,973)
Information Technology	3,947,655	2,462,301	(1,485,354)
Human Resources	3,186,320	2,003,449	(1,182,871)
Finance	4,102,769	2,659,832	(1,442,937)
Non-Departmental	51,544,637	31,664,992	(19,879,645)
Animal Care Facility	2,866,620	2,096,992	(769,627)
Economic Development	2,151,067	1,597,090	(553,977)
Development Services	2,857,779	2,047,880	(809,899)
Engineering/Capital Project	9,119,663	6,421,286	(2,698,377)
Police	58,383,458	43,722,760	(14,660,698)
Fire	32,790,014	24,349,462	(8,440,552)
Public Works	12,096,314	8,528,505	(3,567,809)
Parks and Recreation	11,205,938	7,916,180	(3,289,758)
Library	4,101,054	2,757,429	(1,343,625)
TOTAL EXPENDITURE BUDGET	**$ 206,924,526**	**$ 144,229,010**	**$ (62,695,515)**

The next table reflects the projected expenditures for June 30, 2020. The Projected Budget is anticipated to be lower than the Revised Budget by approximately $2.5 million. The primary driver of the projected lower budget is due to the decrease of $2.4 million in transfers out of the General Fund to the Measure P and Measure A Funds due to the anticipated decrease in revenues related to the slowdown of the economy. As noted previously, the projected decrease in Measure P and Measure A revenues would require a corresponding decrease of the transfer to the Measure P and Measure A Funds. The decrease in these transfers is reflected in the Non-Departmental budget.

In review of the other departments, the Fire and Police Departments are projecting to be over budget by year-end primarily due to increased overtime costs. The Parks and Recreation Department and Library Department is projected to be under budget due to closure of City facilities related to COVID-19. For all other departments, staff will continue to monitor expenses to determine if budget amendments would be necessary as part of future budget monitoring reports.

At the end of the fiscal year, the Finance Department will be seeking to make transfers from other expenditure categories with projected savings and appropriate available revenues to fully utilize resources and mitigate any departmental deficiencies based on available budgetary resources.

Fiscal Year 2019/2020 General Fund Projections by Department

Department	FY 2020 Revised Budget	FY 2020 Projected Budget	Variance
City Council	$ 1,567,117	$ 1,528,802	$ (38,314)
Boards & Commissions	11,841	11,841	-
City Clerk	1,183,620	1,138,612	(45,008)
City Attorney	3,293,333	3,179,720	(113,613)
Administration	2,515,326	2,485,490	(29,836)
Information Technology	3,947,655	3,982,070	34,414
Human Resources	3,186,320	2,891,949	(294,371)
Finance	4,102,769	3,878,212	(224,558)
Non-Departmental	51,544,637	49,715,012	(1,829,625)
Animal Care Facility	2,866,620	2,845,796	(20,824)
Economic Development	2,151,067	2,112,430	(38,637)
Development Services	2,857,779	2,725,495	(132,285)
Engineering/Capital Project	9,119,663	9,083,533	(36,130)
Police	58,383,458	59,123,365	739,907
Fire	32,790,014	33,659,200	869,186
Public Works	12,096,314	11,908,953	(187,361)
Parks and Recreation	11,205,938	10,614,608	(591,330)
Library	4,101,054	3,499,779	(601,275)
TOTAL EXPENDITURE BUDGET	**$ 206,924,526**	**$ 204,384,866**	**$(2,539,659)**

Projected General Fund Year-End Fund Balance

The following table reflects the Fiscal Year 2019-2020 General Fund Projected Year-End Fund Balance based on the projections for the third quarter.

Fiscal Year 2019/20 General Fund Projected Year-End Fund Balance (in millions)		
$	194.0	Projected Revenues
	6.6	Prior Year Encumbrances*
	(204.4)	Projected Expenses
$	(3.8)	Projected Year-End Fund Balance

*Planned Use of Fund Balance

Staff anticipates ending the fiscal year with a negative fund balance of $3.8 million. Staff will adjust appropriations with the Fourth Quarter Report when actual expenses and revenues have been recorded as part of the year-end closing process. It is anticipated that the projections listed in this report will change as more data becomes available.

Projected General Fund Use of Reserves

Based on the City's Reserve Policy the Economic Contingency Reserve has funding set aside to mitigate service impacts during a significant downturn in the economy which impacts City revenues such as sales tax, property tax, business license tax, etc. The Fiscal Year 2019 balance for the reserve is $7.3 million.

The following table reflects the Fiscal Year 2019-2020 General Fund Projected Use of Reserves based on the projections for the third quarter.

Fiscal Year 2019/20 General Fund Projected Use of Reserves (in millions)		
$	7.3	Economic Contingency Reserve
	(3.8)	Projected Year-End Balance
$	3.5	Projected Year-End Economic Contingency Reserve

The Third Quarter Projected Year-End Fund Balance for the General fund has a $3.8 million deficit, and with the use of the Economic Contingency Reserve will leave a remaining reserve balance of $3.5 million. However, if the economic impact is worse than the Third Quarter projections the Economic Contingency Reserve may be depleted.