



Quarterly Financial Report First Quarter Ending September 30, 2010 October 26, 2010

OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through September 30, 2010 and projecting out to June 30, 2010. 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 available.

ECONOMIC UPDATE

In its third quarterly report of 2010, the UCLA Anderson Forecast calls for "very sluggish growth" for the foreseeable future as the United States' economy continues to recover from the recession that plagued the nation earlier in the decade. As for the California economy, the State is looking at a difficult period ahead as it attempts to generate not only the 1.3 million jobs lost during the recession, but also the additional jobs needed for new entrants into the job market over the past two and a half years.

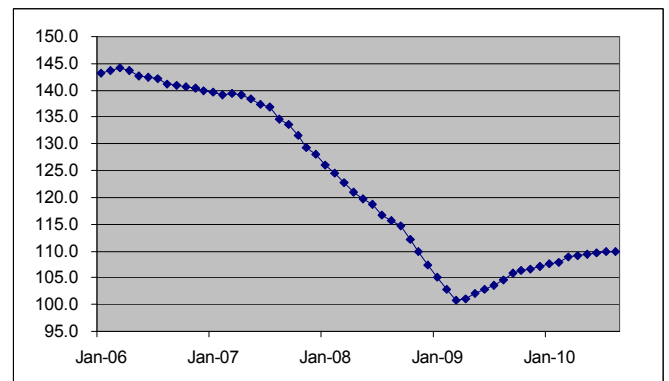
UCLA Anderson Forecast Senior Economist Jerry Nickelsburg writes that "all the evidence suggests that California is ever so slowly coming out of the recession but, slow growth means that while the groundwork for faster growth is being put down, there is not a lot of perceptible change." The Forecast implies that the weak growth will continue in the absence of any imminent changes in consumer or business behavior. According to the report, the very slow growth period will remain until next year. The recovery from the recession will be driven by education, healthcare, exports and technology and to a lesser extent growth in the battered residential construction sector.¹

The University of San Diego's Index of Leading Economic Indicators for San Diego County rose 1.0 percent in March. Leading the way to the upside were strong moves in local stock prices and the outlook for the national economy. Building permits, initial claims for unemployment insurance, and help wanted advertising were also positive, but to a lesser extent. The only down component was local consumer confidence, which fell slightly. With March's advance, the USD Index has now been up for 12 months in a row.

¹ UCLA Anderson Forecast Press Release September 15, 2010.

August's unchanged reading is the latest sign of continued choppiness in the local economy. The USD Index has still not turned negative, so there is no sign of an impending downturn. But growth in the local economy is likely to be uneven, with fits and starts along the way. Job growth continues to be weak and will likely remain so for a long time. While better than in previous months, the economy is down almost 10,000 jobs in August compared to the same time last year. Among the hardest hit sectors are manufacturing (down 2,900 jobs), leisure and hospitality (2,700), government (2,300), retailing (2,200), finance and real estate (2,200), and construction (1,500). The only sectors showing year-over-year gains are health care (up 2,600) and business and professional services (2,700). The latter category is important because it is largely due to big increases in temporary employment, which is often a precursor to full-time employment.²

San Diego Index of Leading Economic Indicators



GENERAL FUND SUMMARY

City Council Policy No 220-03 recommends the City maintain at least an 8 percent reserve level. As of June 30, 2010, the General Fund reserve level was at 7.3 percent (unaudited).

² University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 29, 2010.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2010 (Unaudited)	\$ 10.2	\$ 10.2
Revenues & Transfers In	133.6	133.2
Expenditures & Transfers Out	133.6	133.2
Projected Deficit	0.0	0.0
Projected Fund Balance - June 30, 2011	\$ 10.2	\$ 10.2
Percentage of Operating Budget	7.3%	7.3%

On November 5, 2009, the City Council approved a revised General Fund operating reserve policy setting a long-term goal of building the reserves to 15%. In addition, the Council approved the establishment of two additional reserves, the Economic Contingency Reserve and Catastrophic Event Reserves at 5% and 3% respectively. The additional reserve categories were established to provide for greater distinction, increased security and accountability in the use of reserves.

Based on the overall projected revenues and expenditures the City projects ending the current fiscal year with a balanced budget and with no impact to reserves. This is due largely to the one-time revenues that will be used to balance the current fiscal year budget. The signs of moderate economic recovery, as discussed in the economic overview section, appear to have stopped the hemorrhaging in the City's major revenue sources and confirms that the fiscal year 2011/12 deficit will be approximately \$12.5 million as projected in the Five Year Forecast. This assumes that the City continues to collect UUT revenues.

At this point in the fiscal year we are not projecting any shortfalls in the City's major revenue sources. However there are some revenues that may be at risk due to risk factors that are discussed in the revenue section of the report. There is a slight downward adjustment in programmatic revenues of \$403,000 but corresponding departmental expenditures savings offsets that revenue shortfall.

Total expenditures are projected at \$133.2 million offset by projected revenues of \$133.2 million.

Revenues

Reflected in the table are discretionary and departmental programmatic revenues. The projection for discretionary revenues is that no adjustments are required at this time. Projections for Departmental programmatic revenues have been adjusted downwards by \$403,000 and are mostly related to staff time reimbursements.

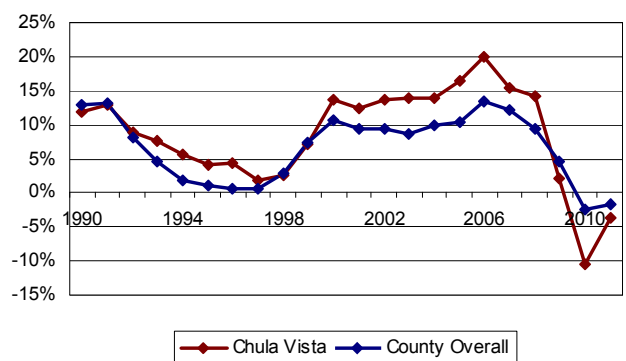
Revenues	FY 2010/11		Delta
	Budget	Projected	
Property Tax	24,073	24,073	0
Sales Tax	17,589	17,589	0
Sales Tax In Lieu (1/4%)	6,044	6,044	0
Motor Vehicle License Fee	16,934	16,934	0
Franchise Fees	7,652	7,652	0
Utility Users Tax	8,756	8,756	0
Transient Occupancy Tax	1,941	1,941	0
Business License Tax	1,190	1,190	0
Real Property Transfer Tax	841	841	0
Licenses and Permits	849	868	19
Fine, Forfeitures & Penalties	2,060	2,054	(6)
Use of Money and Property	6,512	6,515	3
Other Agency Revenue	2,769	2,753	(16)
Charges for Services	6,928	6,730	(198)
Other Revenues	11,022	10,817	(205)
Transfers From Other Funds	18,405	18,405	0
Total	\$ 133,564	\$ 133,162	\$(403)

Property Taxes. The City of Chula Vista receives property tax revenue based upon a 1.0 percent levy on the assessed value of all real property.

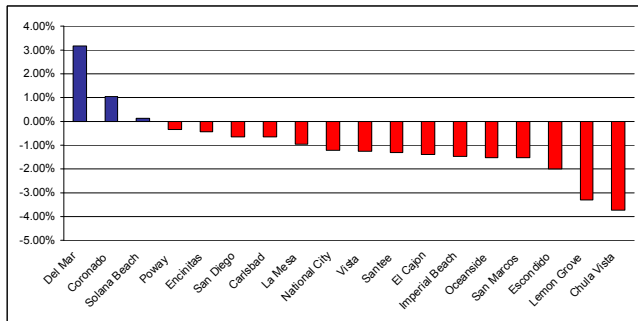
Property tax is the City's largest revenue source, representing 18 percent of General Fund budgeted revenue in fiscal year 2010/11.

The fiscal year 2010/11 Property Tax budget anticipated a 4.9 percent decrease because of the reduction in the City's base assessed values from 2010 to 2011. There are no adjustments being proposed for property tax but that is contingent on the dollar value of the SR125 property tax appeal. The effect of the appeal on current year revenues is unknown at the time of this report.

The chart below compares the City's assessed values with the assessed values of San Diego County overall.

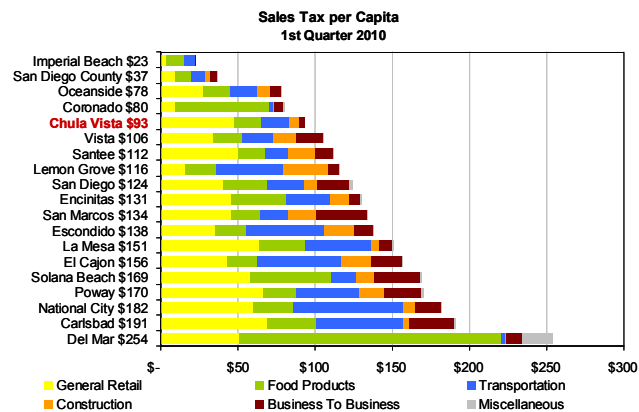


The next chart compares the change in assessed values of the City for fiscal year 2010/11 as compared to other Cities in the County.



Sales Tax. Sales tax is the City's second largest revenue source, representing 17.7 percent of fiscal year 2010/11 budgeted revenues. The sales tax budget for fiscal year 2010/11 anticipated a 1.7% increase over the prior year projection.

City staff has received preliminary sales tax data from the City's sales tax consultant, HdL Companies. They report that the change in sales tax receipts between second quarter calendar year 2010 and second quarter calendar year 2009 increased by 7.3 percent Statewide, by 6.4 percent in Southern California and



6.5 percent in Chula Vista.

The results of the 2nd quarter report shows that the most significant gains came from the General Consumer Goods sector, which was up 4.7% primarily due to Walmart +5.3%, Costco +8.9%, Best Buy +8.5%; and Apple Computer +59.6%. The jump in fuel prices increased the results from the Fuel and Service Stations sector up 17.1% adjusted. Although new auto sales were up 1.6%, the overall gain was muted by the closeout of McCune Chrysler.

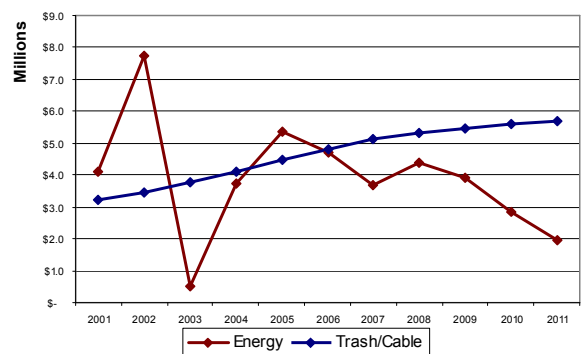
Despite the quarter over quarter increase in sales tax, it does not warrant an increase in the projections for sales tax because one quarter does not represent a trend and could represent pent up consumer spending.

The chart represents sales tax per capita as compared to other Cities in the County.

Motor Vehicle License Fee (VLF). With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. For FY 2005/06 and beyond, the majority of VLF revenues for each city will grow essentially in proportion to the growth in the change in gross assessed valuation.

Due to the new formula by the State, 97% of the City's VLF revenues fluctuate with changes in assessed values in the City. Due to current state of the housing market in the City budgeted VLF revenues for the current fiscal year have been adjusted down by 4.4% from the prior year projections. There is no adjustment to this revenue source being proposed at this time.

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 (9.05% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E is the single largest generator of franchise fees and accounts for approximately 35% of the total franchise revenues. SDG&E collects the franchise fee from Chula Vista customers and through a municipal surcharge imposed on the South Bay Power Plant based on their usage of natural gas. Due to the volatility of the price of natural gas and fluctuation in usage, this component is difficult to project. Trash franchise fees and cable fees are more predictable due to the fixed rates charged and the monthly and quarterly receipt of the revenues respectively.



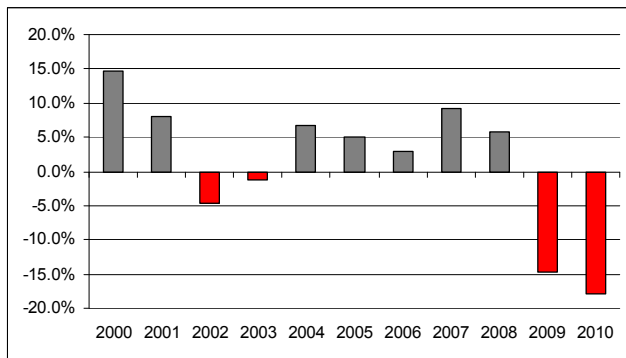
Revenue growth is projected based on population and inflation factors with the exception of the South Bay Power Plant, which is impacted by the cost of natural gas and the actual usage of the plant itself.

The following chart reflects the drop in revenue in the current fiscal year due to the drop in natural gas prices and the reduced usage of the power plant overall. In addition, the current year budget does assume that the South Bay Power Plant is dismantled and is no longer generating franchise fee revenues. The Public Utilities Commission recently ruled that the power plant no longer has Reliability Must Run status and will be decommissioned in 2011. There is no adjustment proposed for this revenue at this time.

Transient Occupancy Tax (TOT). The City receives 10 percent of hotel and motel room rates for stays less than 30 days. The current year budget contemplated no increase from the prior projected revenues.

Below is a chart showing the percentage change in TOT revenues compared to prior years. It is anticipated that no adjustments to the current year budget are required at this time.

TOT Revenues



Utility Users Tax (UUT). The City adopted its Utility Users Tax (UUT) in 1970. The City imposes a UUT on the use of telecom at the rate of 5% of gross receipts, which represents 63% of the total UUT revenues received. 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 City's UUT ordinance (Chula Vista Municipal Code Chapter 3.44) is outdated as it applies to telecommunications usage and needs to be amended to reflect recent changes in Federal tax law and to

modernize the definition of telecommunications so that it is technology neutral. The City will continue to monitor legislation which may require changes to budget estimates.

Revenues are budgeted at \$8.8 million for fiscal year 2010/11. This represents a decrease of 6.9 percent from the prior year projections. The decrease in the budget anticipated the closure of the South Bay Power Plant and the loss of revenues from telecommunications companies that have stopped paying the UUT.

Expenditures

The General Fund's Amended Budget reflects the Council adopted budget of \$133.6 million and all mid-year appropriations (\$331,340) approved by City Council. Actual expenditures to date are reflected in the chart below. It indicates that Departments have expended 21.9 percent of the General Fund budget after 25 percent of the fiscal year has elapsed.

Department	Amended Budget	First Quarter Actual	% Expended
City Council	\$ 1,288	\$ 266	20.7%
Boards/Commissions	15	7	44.5%
City Clerk	936	183	19.6%
City Attorney	2,170	381	17.6%
Administration	1,788	411	23.0%
Information Technology	3,227	916	28.4%
Human Resources	3,789	1,482	39.1%
Finance	3,210	722	22.5%
Non-Departmental	9,149	177	1.9%
Animal Care Facility	2,265	517	22.8%
Planning & Building	3,957	866	21.9%
Police	44,175	10,365	23.5%
Fire	22,055	5,254	23.8%
Public Works	25,943	5,557	21.4%
Recreation	4,801	1,092	22.7%
Library	4,796	1,079	22.5%
Totals	\$ 133,564	\$ 29,275	21.9%

The table below shows the General Fund departments expenditure budgets and the projected expenditures for the fiscal year. The updated department projections anticipate savings of approximately \$403,000.

Department	Amended Budget	Projected 6/30/10	Delta
City Council	\$ 1,288	\$ 1,272	\$ (17)
Boards/Commissions	15	15	\$ -
City Clerk	936	930	\$ (5)
City Attorney	2,170	1,988	\$ (182)
Administration	1,788	1,725	\$ (63)
Information Technology	3,227	3,108	\$ (119)
Human Resources	3,789	3,679	\$ (110)
Finance	3,210	3,091	\$ (119)
Non-Departmental	9,149	10,253	\$ 1,104
Animal Care Facility	2,265	2,265	\$ -
Planning & Building	3,957	3,758	\$ (199)
Police	44,175	43,970	\$ (205)
Fire	22,055	22,234	\$ 180
Public Works	25,943	25,507	\$ (436)
Recreation	4,801	4,648	\$ (153)
Library	4,796	4,719	\$ (77)
Totals	\$ 133,564	\$ 133,162	\$ (403)

Mid-Year Budget Amendments

Mid-year appropriations through the first quarter totaled \$331,340 with offsetting revenues of \$331,340 for no net impact to the General Fund. The following discusses new appropriations for the first quarter.

- The Police Department hired an hourly latent print examiner that is funded by the CAL ID program from the County of San Diego.
- Bonita Canyon repairs for drainage improvements.
- The Cities of Service grant awarded to the City will be used to fund the Chief Service Officer.
- Library received a Leap into Reading grant for fiscal year 2009/10 but it was not carried over into the current fiscal year.

Budget Amendments	Revenue	Expenditure	Net Impact
Hourly Staff Funded by CAL ID Program	\$ 95,000	\$ 95,000	\$0
DR189 - Bonita Canyon Repairs	150,000	150,000	-
Grant Funded Chief Service Officer	86,340	86,340	-
Leap into Reading Grant Carryover	2,000	2,000	-
Total of 1st Quarter Budget Amendments	\$331,340	\$331,340	\$0
Year-to-Date Budget Amendments	\$331,340	\$331,340	\$0

Budget Transfers

There were four administrative budget transfers during the first quarter that totaled \$15,449.

Department	From	To	Description	Amount
Public Works	S&S	Capital	New Mower & Trailer Cost	1,449
Public Works	S&S	Personnel	Adj To S&S Budget	10,000
HR	S&S	S&S	Adj To S&S Budget	2,500
City Council	S&S	S&S	Adj To S&S Budget	1,500
Total of 1st Quarter Budget Transfers				\$15,449

Development Services Fund

With the approval of the fiscal year 2008/2009 budget, the City Council authorized the creation of the Development Services Fund (DSF) comprised of staff from the Departments of Planning & Building, Public Works and Engineering that are responsible for the planning, permitting, plan review, and inspection of development applications.

The Development Services Fund ended fiscal year 2009/10 with a deficit of approximately \$350,000 that is detailed in the table below. Preliminary reviews for the current year appear to indicate a deficit for fiscal year 2010/11 of approximately \$482,400.

Staff will continue to monitor the Development Services Fund and bring back recommendations for mitigating the projected deficit.