



Quarterly Financial Report – General Fund Second Quarter Ending December 31, 2008

March 3, 2009

OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year July 1, 2008 through December 31, 2008. 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

National News

In its fourth quarterly report of 2008, the UCLA Anderson Forecast predicts that the current recession inflicting the national economy will feature four quarters of negative growth (followed by very tepid growth rates) and rising unemployment rates that last through 2010. The California forecast will share the national recession, with negative growth through the middle of next year and high unemployment until 2010 as well.

The UCLA Anderson Forecast now expects that real Growth Domestic Product (GDP) will decline 4.1 percent in the current quarter, followed by respective declines of 3.4 percent and 0.8 percent in the first two quarters of 2009.

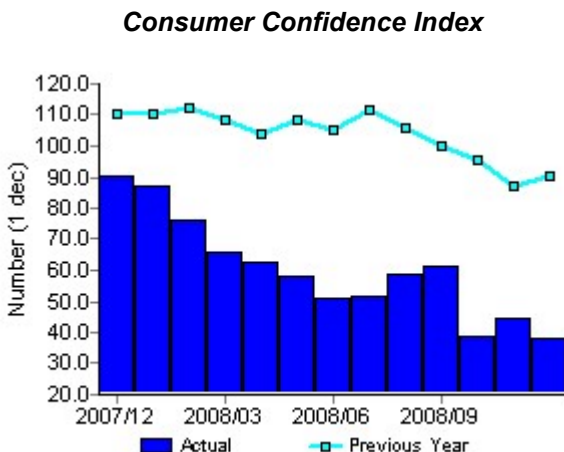
Nationally, unemployment swelled to 7.6 percent in January from 7.2 percent in the previous month. Employment has declined by 3.6 million jobs since the start of the recession in December 2007 with about half of this decline occurring in the past three months.

The Conference Board Consumer Confidence Index™, which had decreased in December, inched lower in January and continues to be at a historic low. The Index fell 12 points in February and now stands at 25.0 down from 37.4 in January.

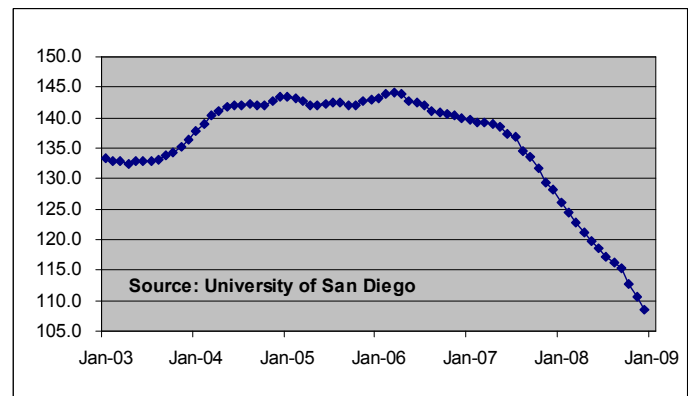
The U.S. Census Bureau estimates U.S. retail sales for January increased by 1.0 percent from the previous month, but were 9.7 percent below January 2008. Total sales for the November 2008 through January 2009 period were down 9.5 percent from the same period a year ago. Gasoline stations sales were down 35.5 percent from January 2008 and motor vehicle sales were down 22.2 percent from last year.

Local News

The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 2.1 percent in December. Huge drops in building permits, initial claims for unemployment insurance, consumer confidence, and help wanted advertising pushed the Index to its second worst monthly drop ever. The USD Index has now fallen in 32 of the last 33 months, with the three largest drops ever in the last three months.



San Diego Index of Leading Economic Indicators



The local economy is expected to be weak for at least the first half of 2009, with job losses in particular expected to mount. While job losses had previously been confined to real estate-related areas (construction, credit, real estate), the damage is now spreading into other sectors of the local economy. Retailing has been heavily impacted, with a weak Christmas buying season causing retail employment to fall by 8,500 jobs in December compared to the same month a year ago. The numbers are expected to worsen with the post-

holiday closing of stores such as Mervyn's, Circuit City, and Linens 'n Things.

GENERAL FUND SUMMARY

City Council Policy No. 220-03 recommends the City maintain at least an 8 percent reserve level. As of June 30, 2008, the General Fund reserve level was at 6.1 percent (audited).

General Fund Reserve	1st Q (millions)	2nd Q (millions)
Reserves - July 1, 2008	\$ 9.3	\$ 9.3
Projected Revenues & Transfers In	137.3	137.3
Expenditures & Transfers Out	(141.3)	(140.1)
General Fund Deficit	(4.0)	(2.8)
Development Services Fund Deficit*	(1.3)	(1.7)
GF and DSF Layoffs/Early Retirements**	-	1.0
Projected Total Deficit	\$ (5.3)	\$ (3.5)
Projected Fund Balance - June 30, 2009	\$ 4.0	\$ 5.8
Percentage of Operating Budget	2.6%	3.8%

* Discussed on Page 5 of this report.

** Scheduled April 10, 2009 layoffs

For fiscal year 2008/09, because of the credit crisis and housing market meltdown, the economy continues to worsen and a combined General Fund and Development Services Fund deficit of \$3.5 million is currently projected. A projected revenue shortfall composed of discretionary revenues (\$2.2 million) and programmatic revenues (\$3.3 million) totaling \$5.5 million is partially offset by projected expenditure savings of \$2.8 million. The projected savings are a result of the COLA savings, early retirement program and a citywide freeze on all discretionary spending such as travel, conferences, memberships, and vehicle purchases. These projections will continue to be revised as updated financial information becomes available.

Revenues

For the first quarter, several discretionary revenues were adjusted downward by \$2.2 million. A brief discussion of the revised revenue projections will follow.

Discretionary Revenues	FY 2008/09		Delta
	Budget	Projected	
Sales Tax	\$ 29,678	\$ 26,890	(\$2,788)
Property Tax	30,232	29,932	(300)
Motor Vehicle License Fee	20,216	20,134	(82)
Franchise Fees	8,732	9,663	931
Utility Users Tax	7,122	7,122	0
Transient Occupancy Tax	2,753	2,753	0
Total	\$ 98,733	\$ 96,494	(\$2,239)

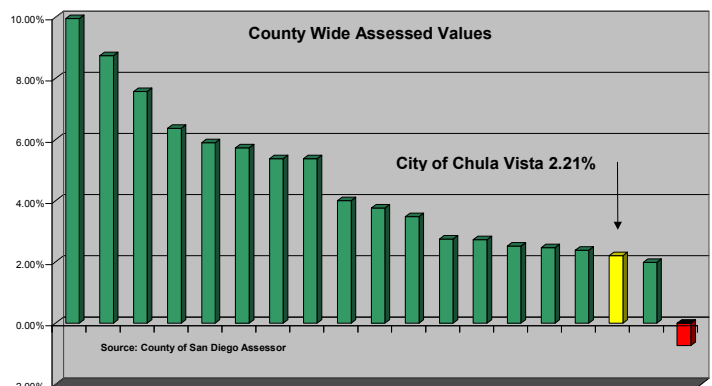
Reflected in the chart below are departmental programmatic revenue adjustments of \$3.3 million. These adjustments were made in the first quarter report and are necessary due to continued declines in development related revenues, grant reductions, capital improvement project revenues and other fees for city services. No further revenue adjustments are necessary at this time.

Revenue Category	FY 2008/09		Delta
	Budget	Projected	
Development Revenue	\$1,966	\$1,265	(\$701)
Licenses and Permits	\$518	\$561	\$43
Fine, Forfeitures & Penalties	\$1,494	\$1,722	\$228
Use of Money and Property	\$2,421	\$2,053	(\$368)
Other Local Taxes	\$2,164	\$2,148	(\$16)
Police Grants	\$1,823	\$1,775	(\$48)
Other Agency Revenue	\$3,520	\$3,206	(\$314)
Charges for Services	\$6,335	\$6,248	(\$87)
Interfund Reimbursements	\$8,916	\$8,062	(\$854)
Other Revenues	\$2,701	\$2,747	\$46
Transfers From Other Funds	\$12,272	\$11,048	(\$1,224)
Total	\$ 44,130	\$ 40,835	(\$3,295)

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.

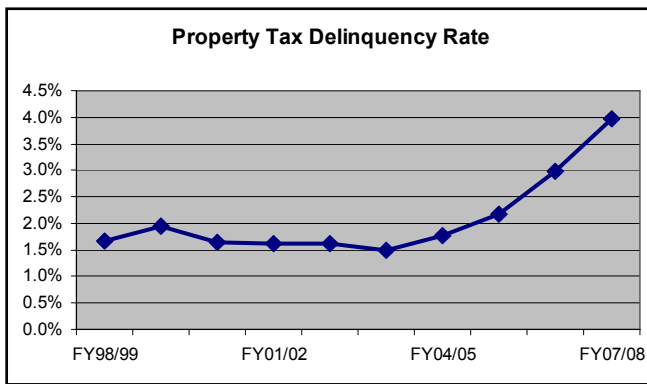
Property Tax Projection Reduced By \$300,000

Property tax is the City's largest revenue source, representing 19.1 percent of the General Fund revenue in fiscal year 2007/08. The City's assessed value grew at historical rates until recently with the largest percentage increase of 20 percent occurring in fiscal year 2005/06. Based on the June 2008 County Assessor's Annual Valuation Report for fiscal year 2008/09, the assessed value in Chula Vista grew by 2.21 percent due to a combination of increased commercial values, addition of the SR125 toll road to the tax roll and the drop in residential assessed values.



The fiscal year 2008/09 Property Tax budget anticipated a 3.9 percent increase. The current projections for Property Tax are being adjusted downwards by \$300,000 to reflect the final Assessor's value of 2.21 percent.

Also impacting property tax revenues are the property tax delinquency rates that continue to climb as the sub-prime mortgage crisis is leaving many homeowners with mortgages that are greater than the current value of their homes. As seen in the chart, the delinquency rate has more than doubled from an average of 1.7 percent for fiscal years 1998/99 to 2004/05 to 3.96 percent for fiscal year 2007/08.



The calendar year 2008 median home price in the City has dropped significantly from 2007 levels. Recent sales data indicates that the median price drops range as high as 30.3 percent in the City.

Zip Code	Locale	Median Price		Percent Change
		2007	2008	
91910	North	\$400,000	\$305,000	-23.8%
91911	South	\$358,500	\$250,000	-30.3%
91913	Eastlake	\$435,000	\$360,000	-17.2%
91914	NE	\$568,500	\$480,000	-15.6%
91915	SE	\$430,000	\$331,000	-23.0%

Source: San Diego Union

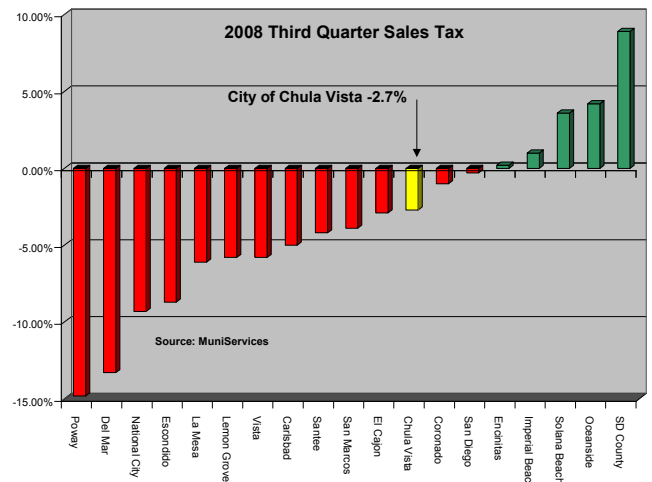
Foreclosures are having an additional negative impact on property tax revenues in the City by depressing housing values. The drop in assessed values has triggered Proposition 8, a constitutional amendment passed in 1978 that allows a temporary reduction in assessed value when real property suffers a "decline-in-value". Therefore, as assessed values fall, homeowners can apply for a reassessment of their homes which would lead to a reduction of property taxes based on the lower assessment. Many of these downward reassessments may not appear on property

tax bills requiring further adjustments to the fiscal outlook beyond fiscal year 2009/10.

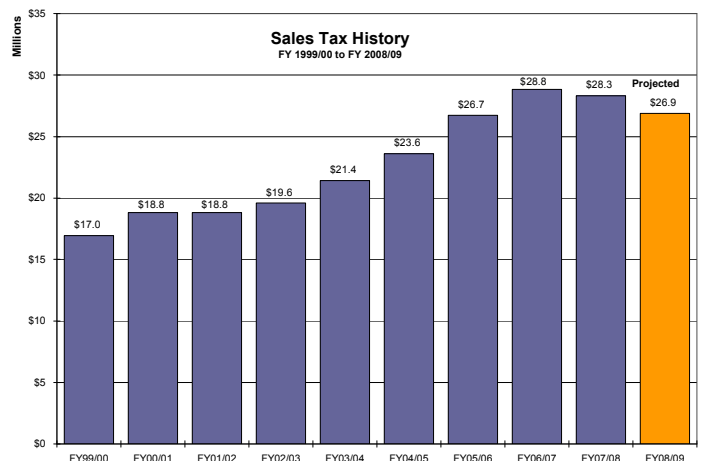
Sales Tax. Sales tax is the City's second largest revenue source, representing 18.5 percent of fiscal year 2007/08 actual revenues.

Sales Tax Projection Reduced By \$2.8 Million

City staff met with the City's sales tax consultant, MuniServices, to review the most recent sales tax revenues. They report that the change in sales tax receipts between third quarter 2007 and the third quarter 2008 decreased by 3.2 percent Statewide, by 3.9 percent in Southern California and 2.7 percent in Chula Vista.



The above chart compares Chula Vista's sales tax with that of other jurisdictions in the County during the third quarter of the calendar year. The chart below depicts the City's sales tax history from fiscal year 1999/2000 to the end of the current fiscal year. For current fiscal year

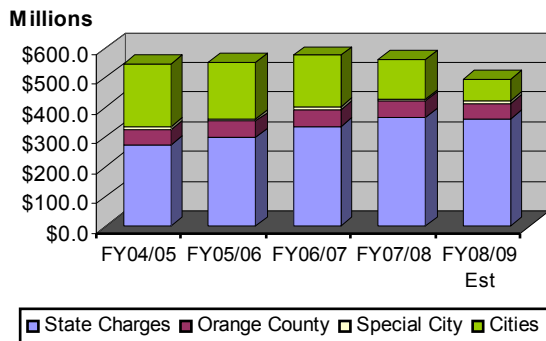


2008/09, the projection reflects a decrease of 5 percent from the prior year actual amount received.

Motor Vehicle License Fee (VLF). The State Budget Act of 2004 deleted the VLF backfill, which had compensated cities and counties for the State's reduction of the VLF rate from 2 to 0.65 percent. Under the swap, 90 percent of City VLF revenue was exchanged for property tax which means the majority of VLF revenues for each city will grow essentially in proportion to the growth of real property assessed values.

Under this formula, the remaining 10 percent of revenues are based on vehicle registrations and the revenues are distributed in the following order: the State (for administrative charges), Orange County, cities incorporated after August 5, 2004 and finally the remaining funds are allocated among all other cities based on the proportionate population of all cities.

Motor Vehicle License Fee Revenue



State charges for the DMV and other functions are based on a forecast of VLF revenues. VLF revenues have fallen well short of the forecast but the State budget has not been adjusted to reflect actual collections. This has caused a decline in the remaining revenues available for allocation to cities (illustrated in the chart above). This revenue shortfall has resulted in insufficient funds to pay the cities. Chula Vista did not receive their November or December allocation.

Due to the new formula that relies on assessed valuations and the decline in automotive sales this revenue source has been adjusted downward by approximately \$82,000 in the first quarter but further adjustments may be required depending on collections for the remainder of the fiscal year.

Franchise Fees. The revenue projection was revised upward in the first quarter by \$900,000 to increase the

fiscal year 2008/09 base budget amount to equal actual amounts received in fiscal year 2007/08.

Utility Users Tax (UUT). Revenues are budgeted at \$7.1 million, which is \$250,000 less than actual for fiscal year 2007/08. This revenue stream continues to be at risk as several legal challenges make their way through the courts.

Development Related Revenues. Development related revenues in the General Fund are being adjusted downwards by \$700,000 due to the continued deterioration of the housing market.

Interfund Transfers & Reimbursements. Interfund transfers and reimbursements are being reduced by \$1.2 million due to revised gas tax projections, loss of library grant funds, and reduced staff time reimbursements from the sewer and development impact fee funds.

Expenditures

Department	Amended Budget	Expended YTD	Available Balance	Percent Expended
City Council	\$ 1,311,626	\$ 576,085	\$ 735,541	43.9%
Boards/Commissions	14,736	3,862	10,874	26.2%
City Clerk	971,934	463,514	508,420	47.7%
City Attorney	2,431,634	804,273	1,627,361	33.1%
Administration	4,253,392	1,943,605	2,309,787	45.7%
Information Technology	3,824,199	1,774,070	2,050,129	46.4%
Human Resources	4,776,085	2,846,699	1,929,386	59.6%
Finance	2,737,944	1,242,549	1,495,395	45.4%
Non-Departmental	5,364,967	4,775,638	\$589,329	89.0%
Planning and Building	2,479,239	1,071,038	1,408,201	43.2%
Engineering	4,756,301	2,229,530	2,526,771	46.9%
Public Works	24,717,673	10,887,075	13,830,598	44.0%
Police	47,990,954	22,095,814	25,895,140	46.0%
Fire	22,800,987	10,994,751	11,806,236	48.2%
Recreation	6,418,254	2,850,834	3,567,420	44.4%
Library	8,083,924	3,689,755	4,394,169	45.6%
Total General Fund	\$142,933,849	\$68,249,092	\$74,684,757	47.7%

The General Fund's Amended Budget reflects the Council adopted budget of \$142.9 million and all mid-year appropriations (\$590,440) approved by City Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 47.7 percent of the General Fund budget after 50 percent of the fiscal year has elapsed.

The following table shows the General Fund departments with their amended budgets and the projected expenditures for the fiscal year. The projected expenditures anticipate savings of approximately \$2.8 million.

Three of the departments, City Clerk, Human Resources and Non-Departmental are projected to be over budget

due to various reasons. The City Clerk is over due to unanticipated election costs. Human Resources is over due to higher than anticipated public liability expenditures and the Non-Departmental is projected to be over due to budgeted salary savings that is realized at the department level but budgeted as a Non-Departmental expenditure.

Department	Amended Budget	Projected Expenditures	Projected Savings
City Council	\$ 1,311,626	\$ 1,311,626	\$ -
Boards/Commissions	14,736	14,736	-
City Clerk	971,934	1,150,945	(179,011)
City Attorney	2,431,634	1,929,905	501,729
Administration	4,253,392	4,120,967	132,425
Information Technology	3,824,199	3,589,344	234,855
Human Resources	4,776,085	5,600,720	(824,635)
Finance	2,737,944	2,614,642	123,302
Non-Departmental	5,364,967	7,826,304	(2,461,337)
Planning and Building	2,479,239	2,431,166	48,073
Engineering	4,756,301	4,603,781	152,520
Public Works	24,717,673	23,171,251	1,546,422
Police	47,990,954	46,006,822	1,984,132
Fire	22,800,987	22,750,430	50,557
Recreation	6,418,254	5,867,562	550,692
Library	8,083,924	7,096,112	987,812
Total General Fund	\$142,933,849	\$ 140,086,313	\$ 2,847,536

Mid-Year Budget Amendments

Mid-year appropriations during the quarter totaled \$75,341 with offsetting revenues of \$92,048 for a net positive impact of \$16,707. The appropriations were for reimbursements from National City for the use of Chula Vista staff on capital improvement project related tasks, additional youth sports camps and donations for youth recreation and environmental programs.

Budget Amendments	Revenue	Expenditure	Net Impact
In Custody Drug Treatment Program	\$54,642	\$54,642	\$0
CORR Racing Overtime Reimbursement - Police	\$33,431	\$27,859	\$5,572
CORR Racing Overtime Reimbursement - Fire	\$40,280	\$33,567	\$6,713
Recreation donation for Fun, Fit, and Free Days	\$7,100	\$7,100	\$0
Donation to Animal Care Facility	\$1,000	\$1,000	\$0
Addition of Two Code Enforcement Officer II Positions	\$133,000	\$133,000	\$0
Street Racing Crackdown Grant	\$257,931	\$257,931	\$0
Total of 1st Quarter Budget Amendments	\$527,384	\$515,099	\$12,285
Reimb from National City for CIP related tasks	\$51,648	\$51,648	\$0
Donations for youth recreational programming	\$3,900	\$3,900	\$0
Additional youth sports camps	\$36,000	\$19,293	\$16,707
Donation from Kohl's to support environmental program	\$500	\$500	\$0
Total of 2nd Quarter Budget Amendments	\$92,048	\$75,341	\$16,707
Year to Date	\$619,432	\$590,440	\$28,992

Budget Transfers

There were three administrative budget transfers during the second quarter for wireless access cards and the recruitment for Fire Chief.

Department	From	To	Description	Amount
NONE				
			Total of 1st Quarter Budget Transfers	\$0
Planning & Bldg	S & S	Utilities	Wireless access cards	\$4,870
Planning & Bldg	Other Expenses	Utilities	Wireless access cards	\$5,570
Fire	Personnel	S & S	Fire Chief recruitment	\$15,000
			Total of 2nd Quarter Budget Transfers	\$25,440

Development Services Fund

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

As the fiscal year has progressed it has become apparent that despite cuts made to the Development Services Fund as part of Council actions taken on September 9, 2008, development related revenues are insufficient to support expenditure levels. The Development Services Fund gap has increased from the reported \$1.3 million at the November 17 budget workshop and is now projected to be at \$1.7 million and does not appear it will be mitigated in the current fiscal year. Consequently the combined hit to the General Fund reserves will be \$3.5 million. Current DSF projections are displayed in the table below.

Division	Projected Revenues	Projected Expenditures	Projected Net Impact
Planning	\$ 2,419,911	\$ 2,981,593	\$ (561,682)
Building	1,870,166	2,552,643	(682,477)
Engineering	1,627,861	1,897,055	(269,194)
Public Works	1,509,970	1,741,516	(231,546)
DSF TOTAL	\$ 7,427,908	\$ 9,172,807	\$ (1,744,899)