



## Quarterly Financial Report Second Quarter Ending December 31, 2009 March 2, 2010

### OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through December 31, 2009 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 fourth quarterly report of 2009, the UCLA Anderson Forecast concludes that the national economy is on a "modest growth path that will be accompanied by extraordinarily high rates of unemployment." This slow growth outlook reflects the lagging effects of the implosion on consumer balance sheets and, according to the Forecasts, is a result of the economy in transition from being an import-oriented/low-saving rate one to a more export and higher-savings oriented one. Fueling this transition is the administration's "weak dollar policy" which encourages exports and discourages the consumption of imports and the combined effect will cause real consumer spending to grow at a modest 2% rate- far below the historical 3-3.5% rate.

In California, the UCLA Anderson Forecast suggests that the recession is playing out much as was predicted. The state's unemployment rate continues to increase and local government employment continues to decline. Larger than expected reductions in government spending lowers the California forecast slightly more than previously reported.

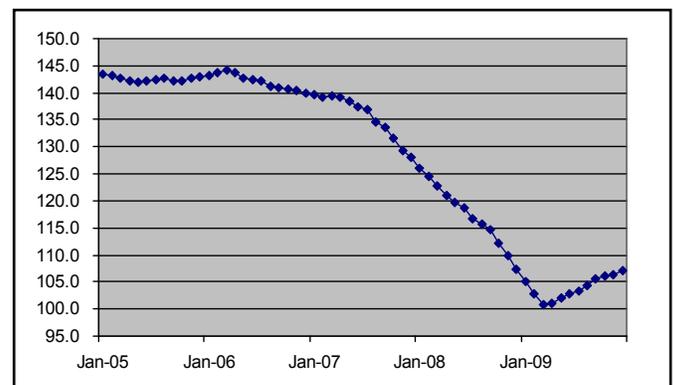
UCLA Anderson Senior Economist Jerry Nickelsburg prognosticates that the outlook for the rest of the year is little or no growth for the State. He writes, "The economy will begin to pick up slightly in the beginning of 2011, and by the middle of 2011, will begin to grow at more normal levels." Nickelsburg believes that the keys to the California recovery are exports of manufactured and agricultural goods; increased public works construction and increased investment in business equipment and software.<sup>1</sup>

<sup>1</sup> UCLA Anderson Forecast Press Release December 9, 2009.

The University of San Diego's Index of Leading Economic Indicators for San Diego County rose 0.7 percent in December. For the first time since April 2004, all six of the components in the USD Index were up in the month. The advance was led by a sharp increase in the outlook for the national economy. Four components - building permits, initial claims for unemployment insurance, local stock prices, and help wanted advertising - were up moderately, while local consumer confidence was up but virtually unchanged. The USD Index of Leading Economic Indicators has now risen for nine consecutive months.

With December's advance in the USD Index, the outlook continues to be positive for the local economy. There are signs of recovery in some sectors of the economy, such as housing, where prices are up more than eight percent from the low and where there has been a pickup in sales. Continued strength is expected in the housing market due to low interest rates, federal incentives for first-time and even move-up buyers, and the rebounding economy. On the downside, there is likely to be another wave of foreclosures as adjustable rate mortgages readjust and job losses take their toll. Still, a gain in the single digit percentage range is expected for 2010.<sup>2</sup>

### San Diego Index of Leading Economic Indicators



<sup>2</sup> University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 24, 2009.

## GENERAL FUND SUMMARY

City Council Policy No 220-03 recommends the City maintain at least an 8 percent reserve level. As of June 30, 2009, the General Fund reserve level was at 6.7 percent (audited).

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2009	\$ 9.3	\$ 9.3
Projected Revenues & Transfers In	133.4	129.0
Expenditures & Transfers Out	133.5	130.4
Midyear Appropriation - Contracting Initiative	-0.1	
Projected Deficit	\$ (0.1)	-1.4
<b>Mitigating Actions</b>		
RDA Loan Repayment		1.4
Subtotal		0.0
<b>Projected Fund Balance - June 30, 2010</b>	<b>\$ 9.2</b>	<b>\$ 9.3</b>
<b>Percentage of Operating Budget</b>	<b>6.6%</b>	<b>6.7%</b>

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. Although there are signs of moderate economic recovery, as discussed in the economic overview section, the City continues to experience downward adjustments to its major revenues primarily due to the continued impacts of the economic downturn in the housing market and retail market.

Total expenditures are projected at \$130.4 million offset by projected revenues of \$129.0 million and a loan repayment from the Redevelopment Agency to the General Fund of \$1.4 million. The projected expenditures take into account the City Managers hiring/promotional freeze and administrative freeze on all non-essential services. The City projects that these actions will avoid impacts to reserves and continue to maintain a balanced budget for the current fiscal year based on the second quarter analysis.

The Fire Department is projecting going over its allocated budget by approximately \$717,000. Approximately \$473,000 is related to expenditure

overages primarily due to overtime for constant minimum staffing (\$340,000) and regular overtime (\$40,000). In addition, the department is projecting a shortfall of reimbursable revenues of \$250,000. This shortfall is being mitigated as discussed in this report.

## Revenues

Revenues	FY 2009/10		Delta
	Budget	Projected	
Property Tax	27,199	25,311	(1,888)
Sales Tax	18,707	17,589	(1,118)
Sales Tax In Lieu (1/4%)	6,838	5,655	(1,183)
Motor Vehicle License Fee	18,287	17,717	(570)
Franchise Fees	10,033	8,447	(1,586)
Utility Users Tax	8,169	9,401	1,232
Transient Occupancy Tax	2,603	1,941	(662)
Business License Tax	1,190	1,190	0
Real Property Transfer Tax	841	841	0
Licenses and Permits	880	880	0
Fine, Forfeitures & Penalties	2,380	2,252	(128)
Use of Money and Property	1,813	1,827	14
Other Agency Revenue	2,779	2,991	212
Charges for Services	7,642	6,628	(1,014)
Other Revenues	11,900	12,202	302
Transfers From Other Funds	12,340	14,126	1,786
<b>Total</b>	<b>\$ 133,601</b>	<b>\$ 128,998</b>	<b>\$ (4,603)</b>

Reflected in the chart are discretionary and departmental programmatic revenue adjustments. These adjustments are necessary due to recent information received from the County Assessors office, the City's sales tax consultant as well as data received from the San Diego Convention and Visitors Bureau Quarterly Travel Forecast.

**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.

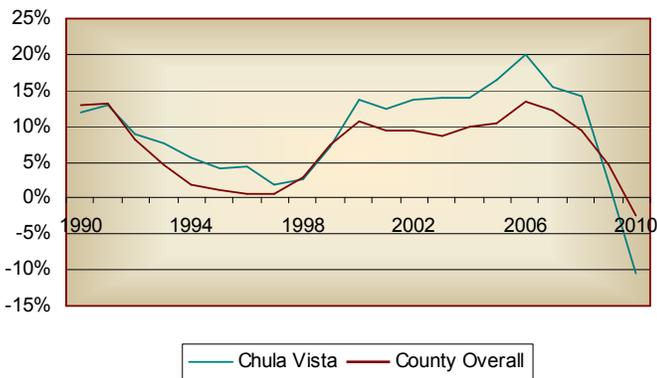
Property tax is the City's largest revenue source, representing 20.4 percent of General Fund budgeted revenue in fiscal year 2009/10.

The fiscal year 2009/10 Property Tax budget anticipated an 8.4 percent decrease. However since adoption of the budget the County Assessor has advised the City that there has been a further decline of 2 percent in assessed values from the decline initially reported to the City resulting in a downward adjustment of \$600,000 in the 1<sup>st</sup> quarter.

Based on the actual property tax revenues collected year to date, continued decline in supplemental taxes and refunds processed by the County, a downward

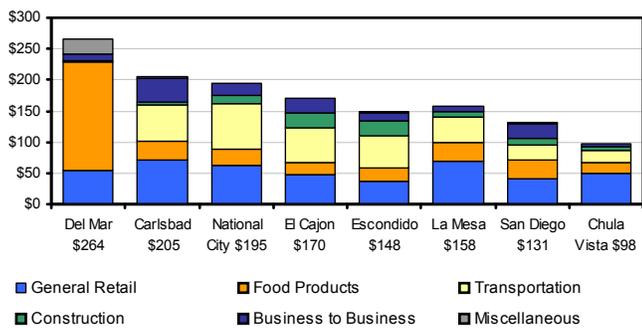
adjustment of \$1.3 million is necessary at this time. These additional adjustments were provided by the County San Diego Auditor & Controller in the January 2010 report to the City.

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



**Sales Tax.** Sales tax is the City's second largest revenue source, representing 19.2 percent of fiscal year 2009/10 budgeted revenues.

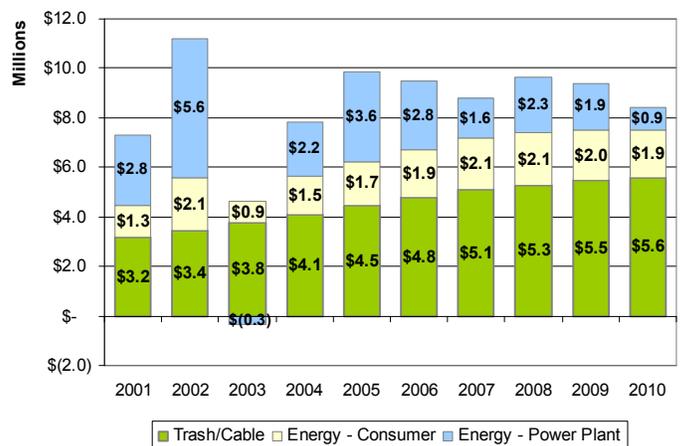
City staff met with the City's sales tax consultant, MuniServices, to review the most recent sales tax revenues. They report that the change in sales tax receipts between third quarter calendar year 2009 and the third quarter calendar year 2008 decreased by 14.8 percent Statewide, by 15.5 percent in Southern California and 13.0 percent in Chula Vista. As a result of the continuing decline in sales tax revenues through September 2009, additional adjustments are necessary. The sales tax revenues reflecting the holiday sales is not yet available and will be discussed in the third quarter report.



**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 that relies on assessed valuations, the continued decline in automotive sales, and the County Assessors additional adjustment of -2 percent in assessed values, this revenue source was adjusted downward in the first quarter by approximately \$0.6 million.

**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.

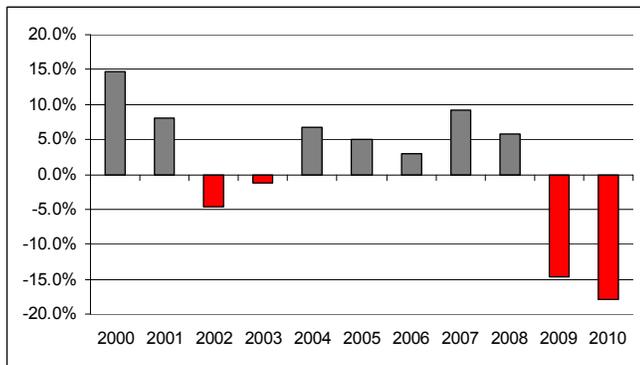
The Franchise Fee revenue projection was revised downward by \$1.6 million based on two factors. Based on the most recent information on the price of natural gas, the price per unit has dropped by 51.2 percent (\$7.69 Sept 08 vs. \$3.75 Sept 09). In addition, the Public Utilities Commission recently ruled that only two of the power plant's four generators now have Reliability Must Run status which is also impacting projected revenues for the current fiscal year and on an on-going basis.



**Transient Occupancy Tax (TOT).** The first quarter report reflected a downward adjustment to TOT revenues based on actual revenues from the prior year. The downward trend has continued through the second quarter of the current fiscal year by approximately 17.8%. This is on top of the 14.6% decline experienced in the prior year.

Based on the Quarterly Travel Forecast prepared for the San Diego Convention and Visitors Bureau dated December 2009, "Average daily rates in San Diego fell more sharply than in some other areas early in the downturn improving San Diego's competitive position. The Average Daily Rate is expected to grow again next year as occupancy improves." Due to the decline in rates in San Diego and low occupancy rates local motel/hotels have reduced their daily rates in order to stay competitive. Accounting for the reduced rates (ranging from 10% to 40%), the weak economy, less travels to/from Mexico and less overflow from hotels in downtown San Diego, the City's TOT revenues are projected at approximately \$1.9 million which brings the TOT revenues back to fiscal year 2000 levels. Below is a chart showing the percentage change in TOT revenues compared to prior year.

**TOT Revenues**



**Utility Users Tax (UUT).** Revenues are budgeted at \$8.2 million for fiscal year 2009/10. This revenue is projected to come in \$1.2 million higher as a result of new UUT vendor collections.

## Expenditures

Department	Amended Budget	2nd Quarter Actual	% Expended
City Council	\$ 1,218	\$ 455	37.4%
Boards/Commissions	15	2	12.8%
City Clerk	1,166	370	31.7%
City Attorney	1,971	912	46.3%
Administration	1,727	766	44.4%
Information Technology	3,146	1,549	49.2%
Human Resources	3,823	2,148	56.2%
Finance	3,251	1,432	44.0%
Non-Departmental	8,676	5,290	61.0%
Animal Care Facility	2,404	901	37.5%
Planning & Building	4,108	1,782	43.4%
Police	44,045	20,834	47.3%
Fire	21,419	10,500	49.0%
Public Works	26,396	11,753	44.5%
Recreation	5,197	2,530	48.7%
Library	5,142	2,410	46.9%
<b>Totals</b>	<b>\$ 133,704</b>	<b>\$ 63,633</b>	<b>47.6%</b>

The General Fund's Amended Budget reflects the Council adopted budget of \$133.0 million and all mid-year appropriations (\$494,400) approved by City Council (the amended budget in the charts reflect the Fire Dept appropriation request of \$243,704 as a part of this staff report). Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 47.6 percent of the General Fund budget after 50 percent of the fiscal year has elapsed.

The table below shows the General Fund departments with their amended budgets and the projected expenditures for the fiscal year. The projected expenditures anticipate savings of approximately \$3.0 million.

Department	Amended Budget	Projected 6/30/10	Delta
City Council	\$ 1,218	\$ 1,158	\$ 61
Boards/Commissions	15	15	-
City Clerk	1,166	1,147	19
City Attorney	1,971	1,868	103
Administration	1,727	1,621	106
Information Technology	3,146	2,989	156
Human Resources	3,823	3,783	40
Finance	3,251	3,067	185
Non-Departmental	8,676	7,859	817
Animal Care Facility	2,404	2,120	283
Planning & Building	4,108	4,034	74
Police	44,045	43,906	139
Fire	21,419	21,892	(473)
Public Works	26,396	25,110	1,286
Recreation	5,197	5,082	115
Library	5,142	4,748	395
<b>Totals</b>	<b>\$ 133,704</b>	<b>\$ 130,398</b>	<b>\$ 3,306</b>

## Mid-Year Budget Amendments

Mid-year appropriations through the second quarter totaled \$494,400 with offsetting revenues of \$390,489 for a net impact of \$103,911, which have been mitigated through savings in the general fund. The following discusses new appropriations for the second quarter.

- The Police Department received a donated Fugitive Task Force Vehicle from the U.S. Marshal's Service and needs \$6,000 for fuel and maintenance costs.
- The Police Department will receive a 3% administration fee by acting as the fiduciary for the Organized Drug Crime Enforcement Task Force (\$10,089).
- The Library received a one-time grant of \$6,000 from the County of San Diego for a Heritage Museum exhibit.
- The Nature Center appropriated \$361,900 from donations to assist in the transition to a non-profit organization.

Budget Amendments	Revenue	Expenditure	Net Impact
SD Police Foundation Grant	\$6,500	\$6,500	\$0
Contracting Initiative Ballot Measure	\$0	\$93,000	(\$93,000)
County of SD Registrar of Voters	\$0	\$21,000	(\$21,000)
<b>Total of 1st Quarter Budget Amendments</b>	<b>\$6,500</b>	<b>\$120,500</b>	<b>(\$114,000)</b>
Fugitive Task Force Vehicle	\$6,000	\$6,000	\$0
OCDETF Regional Operations Support	\$10,089	\$0	\$10,089
Nature Center Transition	\$163,400	\$163,400	\$0
Heritage Museum Grant	\$6,000	\$6,000	\$0
Nature Center Transition	\$198,500	\$198,500	\$0
<b>Total of 2nd Quarter Budget Amendments</b>	<b>\$383,989</b>	<b>\$373,900</b>	<b>\$10,089</b>
<b>Year-to-Date Budget Amendments</b>	<b>\$390,489</b>	<b>\$494,400</b>	<b>(\$103,911)</b>

## Budget Transfers

There were five administrative budget transfers during

Department	From	To	Description	Amount
Fire Dept	Personnel	S&S	Adjustments to S&S Budget	7,314
City Council	Utilities	S&S	Adjustments to S&S Budget	154
City Council	Personnel	S&S	Communication Services	1,728
			<b>Total of 1st Quarter Budget Transfers</b>	<b>\$9,196</b>
Public Works	Utilities	Utilities	Transfers for Phone Service	1,154
Public Works	Personnel	Personnel	Transfer for Hourly Wages	15,000
HR Dept	S& S	S&S	Recruitment Expense	1,000
HR Dept	S& S	S&S	Safety Training Funds	10,000
City Council	Personnel	S&S	Miscellaneous Supplies and Services	15,000
			<b>Total of 2nd Quarter Budget Transfers</b>	<b>\$42,154</b>

the second quarter that totaled \$42,154.

## 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.

Division	Projected Revenues	Projected Expenditures	Projected Net Impact
P&B Administration		\$ 270,069	\$ (270,069)
Planning	1,836,358	2,026,932	(190,574)
Building	1,922,269	1,799,129	123,140
Engineering	1,120,252	1,476,016	(355,764)
<b>DSF TOTAL</b>	<b>\$ 4,878,879</b>	<b>\$ 5,572,146</b>	<b>\$ (693,267)</b>

Despite cuts made to the Development Services Fund over the past year, there is a projected deficit of approximately \$700,000 in the current fiscal year. The shortfall is a result of a reduction in the fully burdened hourly rate due to reductions in administrative staffing levels and reduction in billable hours to funded projects – combined these two changes result in a projected revenue shortfall of approximately \$800,000. This shortfall is partially mitigated by \$100,000 in expenditures savings.

Additional review of the DSF fund is currently taking place with the goal of identifying balancing options either through cost reductions or potential one-time revenues to mitigate the deficit by the end of the fiscal year. If options are not identified the projected deficit could result in an impact to the General Fund reserves.