



FISCAL YEARS
2009 - 2013



YEAR
FINANCIAL OUTLOOK



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Five - Year Financial Outlook

March 2008

EXECUTIVE SUMMARY

The goal of the Five-Year Financial Forecast is to assess the City's ability over the next five years to continue current service levels based on projected growth, preserve our long-term fiscal health by aligning operating revenues and costs, and rebuild the reserves to the Council policy level of 8%.

The General Fund Five Year Forecast serves as a tool to identify financial trends, shortfalls, and issues so the City can proactively address them. Over the past 10 years, the City has experienced very healthy increases in its revenue base primarily fueled by the housing boom and commercial developments in the eastern sections of the City. This year, the forecast report is issued during a period where several adverse economic developments such as the subprime mortgage issues and credit crisis are having a significant impact on the City's major revenue sources.

This long-term financial outlook continues to identify structural challenges to the City's General Fund. Specific recommendations to achieve a balanced budget for fiscal year 2008-09 will be presented as part of the budget workshops. Subsequent forecasts will be updated once revenue projections are updated and budget balancing alternatives are identified and approved.

This long-term financial outlook continues to identify structural challenges to the City's General Fund.

It is important to stress that this forecast is not a budget. It doesn't make expenditure decisions but does assess the need to prioritize the allocation of City resources. The purpose of the forecast is to provide an overview of the City's fiscal health based on various assumptions over the next five years and provide the City Council, management and the citizens of Chula Vista with a "heads up" on the financial outlook beyond the budget cycle. The five-year forecast is intended to serve as a planning tool to bring a long-term perspective to the budget process.

The Government Finance Officers Association (GFOA) recognizes the importance of combining the forecasting of revenues and expenditures into a single financial forecast. The GFOA also recommends that a government should have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions that develop appropriate strategies to achieve its goals.

KEY ASSUMPTIONS

The forecast report is based on assumptions regarding what will happen in the regional and State economy over the next five years. It is built upon a set of assumptions about the future economic environment impacting ongoing revenues and expenditures. Following are some of the key assumptions used to prepare the forecast:

- The regional economies will continue at a moderate rate of growth, with slightly higher inflation, slightly higher interest rates and low unemployment.
- City population will continue to increase but at significantly lower rates than in the past five years.
- City sales tax revenues will continue to grow but at very low rates per most of the forecast period.
- There will be significantly less housing development throughout the forecast period with estimated building permits forecasted at 600 per year.
- Adjustments to the base assessed value will occur due to the fall out of the subprime mortgage and credit issues. This will result in lower property tax revenues than previously assumed and are reflected in the forecasted property tax revenues.
- No State takeaways are assumed in the projections although cash flows are being impacted due to the delayed payments in sales tax, vehicle license fees and now gas tax funds.

- Expenditures related to negotiated salary increases are reflected in the forecast through fiscal year 2010, when the term of the current Memorandum of Understandings expire. No additional raises, other than the regularly scheduled step increases, are assumed beyond the current MOU.
- No salary savings are assumed for vacant positions creating a more conservative forecast.
- No additional personnel are assumed for new facilities (i.e. parks).
- No new additional General Fund programs or new revenue sources are assumed in this forecast.
- Franchise Fee revenue projections assumes that the South Bay Power Plant will continue to operate but at a significantly lower rate than in previous years.

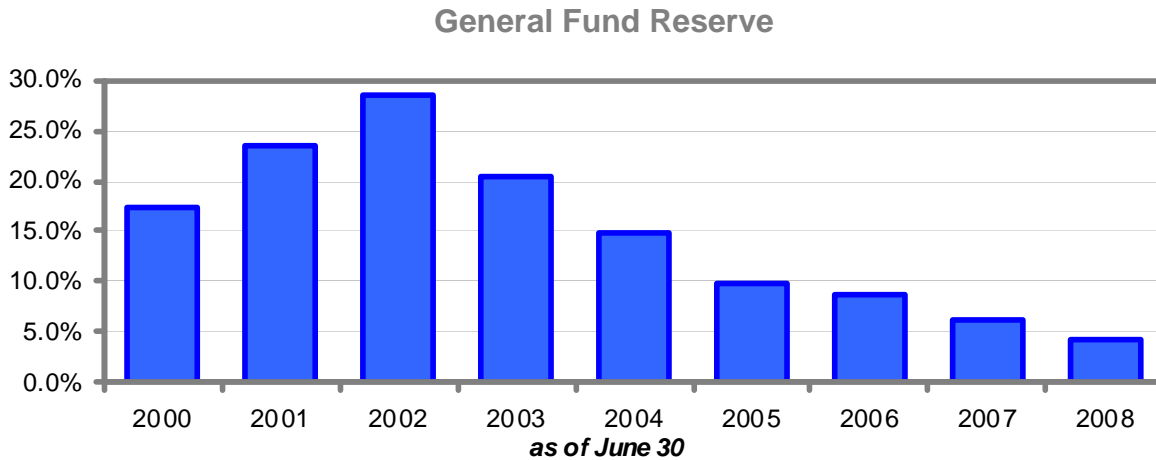
FISCAL SUMMARY

The Council's General Fund minimum reserve level policy of 8%, which became effective in 1996, was established to prudently protect the fiscal solvency of the City. Reserves are important in order to mitigate the negative impact on revenues from economic fluctuations, to withstand State budget grabs and to fund unforeseen expenditure requirements.

As evidenced by the chart below, the General Fund reserves were at an all time high of \$31.2 million or 28.5% of the operating budget at the end of fiscal year 2002. The City's General Fund reserves placed the City in the enviable position to withstand the State's revenue cuts during fiscal years 2005 and 2006 and provided the City with the opportunity to reinvest back into the community. Due to the significant slowdown in the housing market and the overall economy, the reserves dropped to 6.3% at the end of fiscal year 2007. Based on the most current projections we anticipate the available fund balance to be 4.3% at the end of the 2008 fiscal year. The drop in reserves is anticipated due to the continued deterioration

The drop in reserves is anticipated due to the continued deterioration of the economy and housing market, both of which are impacting sales tax and property tax revenues.

of the economy and housing market, both of which are impacting sales tax and property tax revenues. A citywide administrative freeze has been placed on all non-essential expenditures with the goal of maintaining the reserve levels at 6.3% by the end of fiscal year 2008.



The General Fund major discretionary revenues are projected to increase by an annual average of 2.9% during the next five-year period (2009-2013). This compares to a historical annual average growth rate of 11.4%, over the past five years (2004-2008). Expenditures are projected to grow at an annual average rate of 2.0% (Personnel/Benefits category prior to balancing) during the next five years. The changes in anticipated growth take into account the significant downturn in the economy experienced over the past year and the assumption that a turnaround will not likely occur in the near term.

This long-term financial outlook continues to identify structural challenges to the City’s General Fund. Specific recommendations to achieve a balanced budget for fiscal year 2008-09 will be presented as part of the budget workshops. Subsequent forecasts will be updated once revenue projections are updated and budget balancing alternatives are identified and approved.

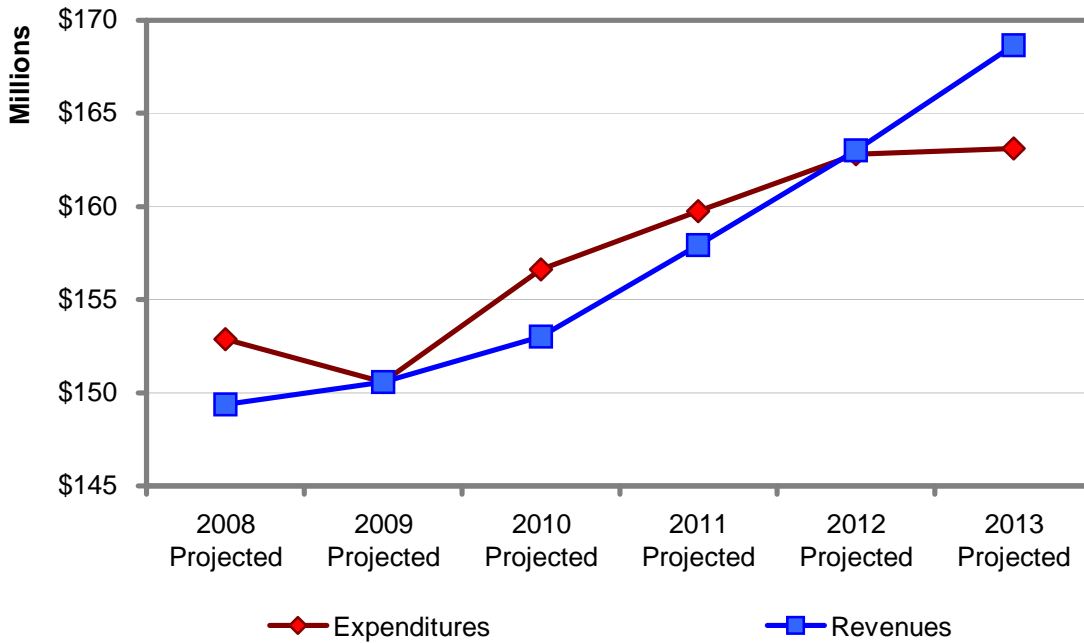
Projected Deficit Summary (in millions) - Prior to FY09 Budget Balancing

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-2012 | 2012-2013 |
|--------------------------|----------------|----------------|-----------------|-----------------|-----------------|----------------|
| Revenues | \$149.4 | \$150.6 | \$153.0 | \$157.9 | \$163.0 | \$168.7 |
| Expenditures | \$152.9 | \$160.3 | \$166.8 | \$170.1 | \$173.4 | \$173.9 |
| (Deficit)/Surplus | (\$3.5) | (\$9.8) | (\$13.8) | (\$12.2) | (\$10.4) | (\$5.3) |

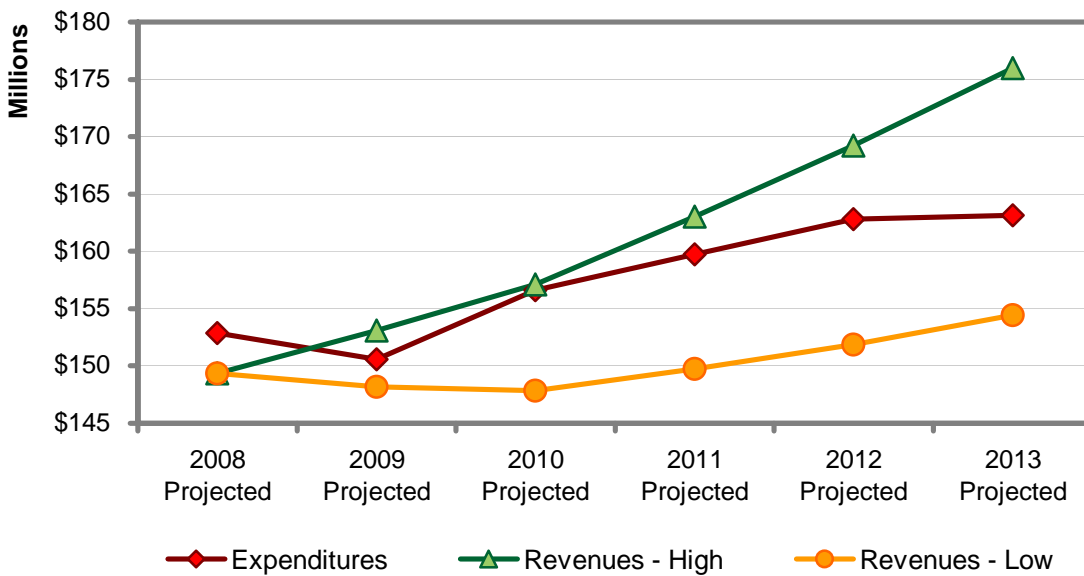
Projected Deficit Summary (in millions) - After FY09 Budget Balancing

| | 2007-08 | 2008-09 | 2009-10 | 2010-11 | 2011-2012 | 2012-2013 |
|-------------------|----------------|--------------|----------------|----------------|--------------|--------------|
| Revenues | \$149.4 | \$150.6 | \$153.0 | \$157.9 | \$163.0 | \$168.7 |
| Expenditures | \$152.9 | \$150.6 | \$156.6 | \$159.8 | \$162.8 | \$163.1 |
| (Deficit)/Surplus | (\$3.5) | \$0.0 | (\$3.6) | (\$1.8) | \$0.2 | \$5.5 |

Baseline Expenditures and Revenues



Baseline Expenditures and High and Low Revenue Scenarios



Attachment A General Fund

FINANCIAL FOCUS

The General Fund is the City's operating fund which pays for public safety services, libraries, parks, recreation and administration. All the major discretionary revenues such as Property Taxes, Sales Taxes and Motor Vehicle License Fees are accounted for within the General Fund. The forecast reflects final audited figures for fiscal years 2006-07, estimated figures for fiscal year 2007-08, 2008-09 and forecasted figures for fiscal years 2009-10 through 2012-13.

The focus of the Five-Year Financial Forecast Report (forecast) has previously only included the General Fund. This year the financial forecast includes the Redevelopment Agency forecast as well. Ultimately the forecast report will also include the Development Impact Fee Funds, Sewer Funds and various other funds which are key components that play into the City's long term financial viability.

ECONOMIC AND DEMOGRAPHIC ASSUMPTIONS

ECONOMIC UPDATE

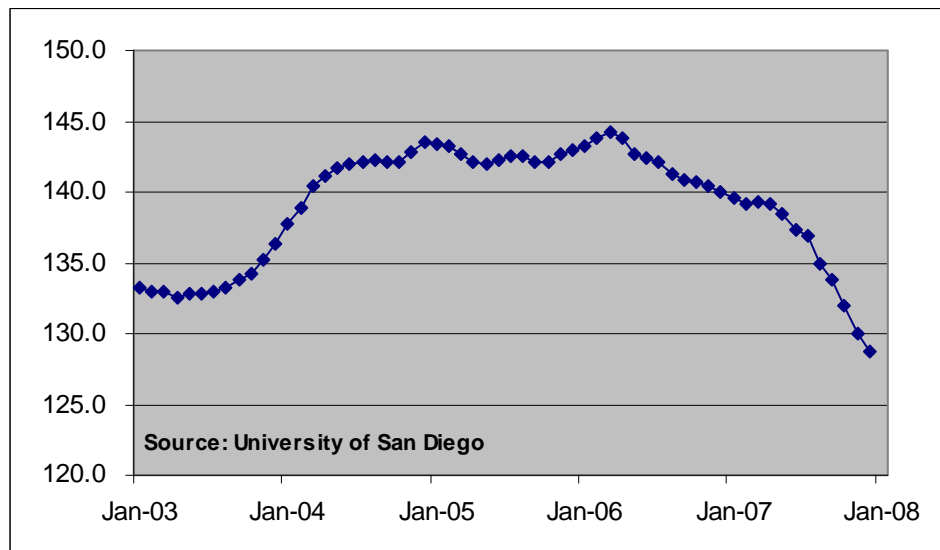
In California, UCLA Anderson Forecast Economist, foresee a slower and prolonged period of sluggishness for the state's economy but continue to predict that California will not fall into a recession. They expect unemployment to peak at 6.1% in late 2008. Real growth in Gross State Product and Personal Income is expected to be in the 1 – 2% range over the same period. The weakness in the vast real estate sector continues to contribute towards the sluggish economy. The collapse of the housing market coupled with the credit crunch will continue to weigh down economic activity throughout 2008.

The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 1.0 percent in December after falling 1.5 percent in November. December's decline was the fourth large drop (one percent or more) in the last five months, and the Index has now fallen in 20 of the last 21 months. Leading the way to the downside were sharp drops in consumer confidence and help wanted advertising. Also down to a lesser extent were initial claims for unemployment insurance, local stock prices, and the outlook for the national economy. The only positive component was building permits, which were up moderately during the month. Despite a gain in

December, residential units authorized by building permits declined by 31 percent in 2007 compared to 2006. Both single-family units (down 26 percent) and multi-family units (down 35 percent) were hurt by the slump.

Although the local economy is not in a recession in the sense that there has been a loss of jobs or a drop in Gross Regional Product, economic activity has slowed considerably. Initial data for 2007 shows an increase of 10,700 jobs for the year, compared to a gain of 17,800 jobs in 2006, and the unemployment rate is approaching 5 percent. Combined with slow housing sales and a surge in foreclosures, we are probably in the San Diego equivalent of a recession at this point. That weakness is expected to continue for most of 2008. ¹

San Diego Index of Leading Economic Indicators

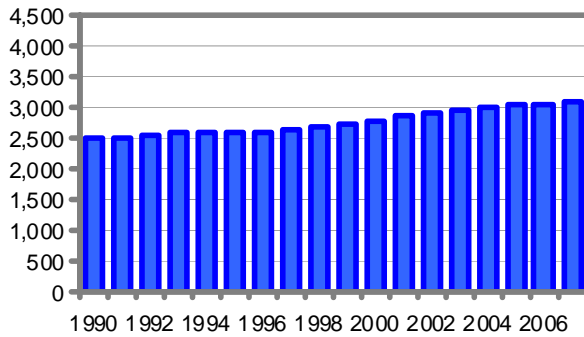


POPULATION AND HOUSING

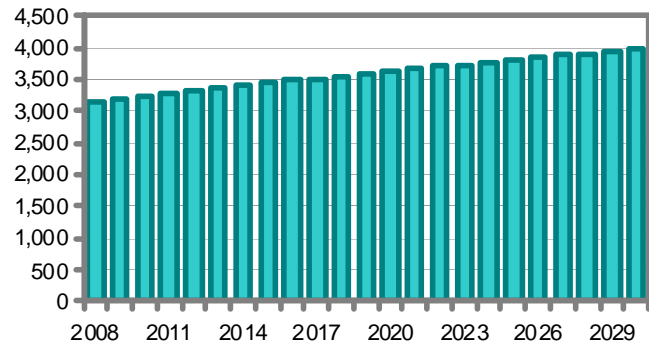
Overall population growth for San Diego County from 1990 to 2007 has averaged 1.275%. Since 1990 the annual growth has outpaced the US and represents steady moderate growth within the State. Per estimates provided by SANDAG (San Diego Association of Governments), the forecasted annual growth from 2008 to 2030 is projected at 1.05%. This growth will continue to support “real” growth in taxable retail sales and associated revenues.

¹ University of San Diego School of Business Administration, *USD Index of Leading Economic Indicators Down Sharply in December, January 31, 2008.*

Historical County Population 1990-2007¹



Projected County Population 2008-2030²



¹ 2007 County population is an estimate as of 1/1/2007

Source: San Diego County Regional Transportation Commission and SANDAG

The City of Chula Vista has been one of the fastest growing Cities in the nation for the past five years growing at an average 4% per year. Due to the slow down in residential development, population growth is assumed at 1.9% per year throughout the forecast period. Chula Vista remains as the 14th largest California city in population. Year-to-year population growth is a useful factor in predicting increases in other revenue categories, such as Franchise Fees and Business Licenses.

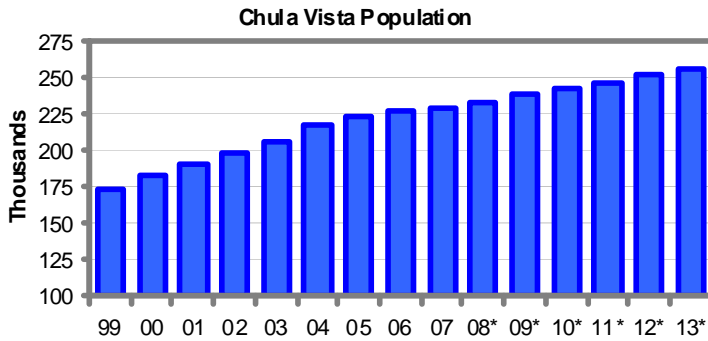
The population forecast is derived using the number of homes constructed. The California State Department of Finance (DOF) estimates that Chula Vista has an average of 3.036 persons per household. Assuming that this factor is accurate and remains valid over the next five years, and assuming a 3% vacancy rate, Chula Vista can expect a total population of approximately 253,600 persons by the end of 2012.

This is estimated as follows:

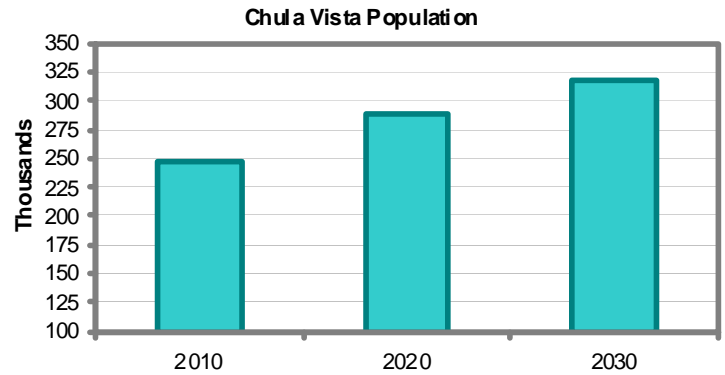
- The California State Department of Finance (DOF) estimated a Chula Vista population of 227,723 as of January 1, 2007.
- The recently updated General Plan identified the capacity for an additional 30,000 units throughout the City through build out.
- An additional 642 units were occupied from January 1, 2007 to November 2007 compared to 1,448 in calendar year 2006.

- Over the next decade residential (and related population) growth rates are expected to be, on average, below the growth experienced during the development boom years of 1999 - 2005.

Historical City Population 1990-2007¹



Projected City Population 2010-2030²



¹ Source - Population data for 1999 to 2007 reflects California Department of Finance comprehensively revised population figures as of January 1st. The 2008 to 2013 population estimates assume an avg. growth rate of 1.9%.

² Source - SANDAG 2030 Regional Growth Forecast Update, September 2006 (Report is updated every 3 to 5 years.)

INFLATION (CONSUMER PRICE INDEX)

Inflation is a measure of the increase in cost of goods and services. Inflation impacts many revenues, such as rents and leases, and most expenditure categories throughout the five-year forecast and projected to average 3% per year.

FORECASTED REVENUES

Revenue estimates contained in this forecast are based on the assumptions discussed below. The prior year revenue projections were based on the assumption that no major economic downturns would occur within the next five years and that development would continue but at a significantly slower pace. Today, with the significant concerns surrounding the state of the economy and the continued decline in the real estate market, the assumptions have been adjusted accordingly and are discussed in this report.

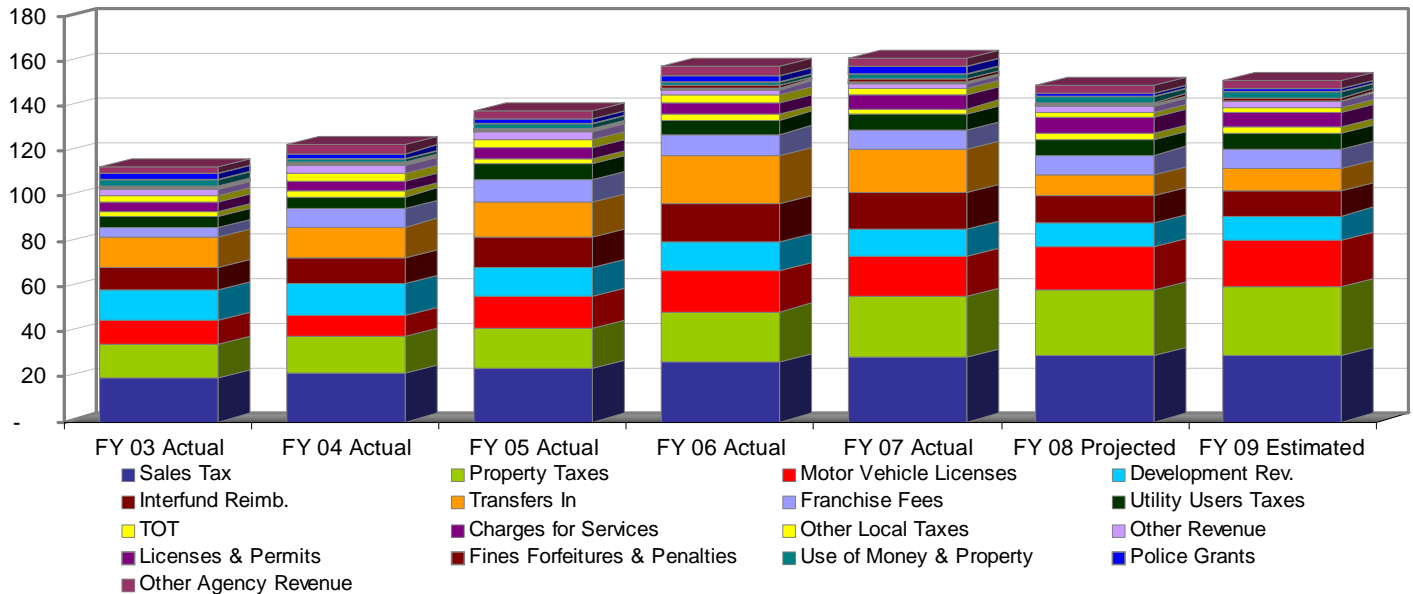
Forecast of Major General Fund Revenues

% Changes from Prior Year

| Revenue Category | | 5 Year Avg 2003-2007 | Actual 2006-07 | Estimated 2007-08 | Estimated 2008-09 | Forecast 2009-10 | Forecast 2010-11 | Forecast 2011-12 | Forecast 2012-13 |
|---------------------|------|-------------------------|-------------------|----------------------|----------------------|---------------------|---------------------|---------------------|---------------------|
| Sales Tax | Base | 9.0% | 7.9% | 0.9% | 2.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| | High | | | | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| | Low | | | | 0.0% | 0.0% | 2.0% | 2.0% | 2.0% |
| Property Tax | Base | 15.5% | 20.2% | 9.1% | 3.9% | 3.4% | 4.8% | 4.8% | 4.9% |
| | High | | | | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| | Low | | | | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Franchise Fees | Base | 7.0% | -7.2% | 0.0% | -0.9% | 1.9% | 1.9% | 1.9% | 2.2% |
| | High | | | | 0.0% | 2.5% | 2.5% | 2.5% | 2.5% |
| | Low | | | | -2.0% | -3.0% | -3.0% | -1.0% | 0.0% |
| MVLFF | Base | 14.2% | -3.7% | 11.2% | 2.9% | 3.9% | 4.8% | 4.8% | 4.9% |
| | High | | | | 5.0% | 5.0% | 5.0% | 5.0% | 5.0% |
| | Low | | | | 1.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| Utility Users Tax | Base | 12.0% | 9.7% | 1.0% | 1.0% | 1.1% | 1.5% | 1.5% | 3.0% |
| | High | | | | 2.0% | 2.0% | 2.0% | 2.0% | 4.0% |
| | Low | | | | 0.0% | 0.0% | 0.0% | 0.0% | 2.0% |
| TOT | Base | 4.5% | 9.2% | 4.7% | 3.0% | 2.0% | 2.0% | 2.0% | 2.0% |
| | High | | | | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| | Low | | | | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Development Revenue | Base | 4.7% | -2.2% | -14.7% | 6.9% | 1.9% | 1.9% | 1.9% | 2.2% |
| | High | | | | 8.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| | Low | | | | 2.0% | 0.0% | 0.0% | 0.0% | 0.0% |

One of the City’s strengths has been its diversified revenue base. A diversified revenue base lessens the impact that fluctuations in specific economic sectors have on the City’s ability to provide services. Although the City maintains a diversified revenue base, it will be imperative to the long term fiscal sustainability of the City to continue adding to the base by increasing revenues such as City’s TOT (hotel tax) by attracting additional hotels.

General Fund Revenues



SALES TAXES

Prior to fiscal year 2004-05, the City received 1% in sales and use tax revenue from all taxable retail sales occurring within the City limits. Beginning in fiscal year 2004-05, the State reduced the local allocation by 0.25% and applied these funds as security for the State’s Economic Recovery Bonds. The State committed to replacing the 0.25% sales tax revenues dollar-for-dollar in local property taxes from the County Educational Revenue Augmentation Fund (ERAF). For forecasting and comparison purposes, sales tax revenues are projected at the full 1% rate.

Sales tax revenues are collected by the State at a rate of 7.75% for the San Diego County region. The sales tax revenues are then allocated based on the following rates:

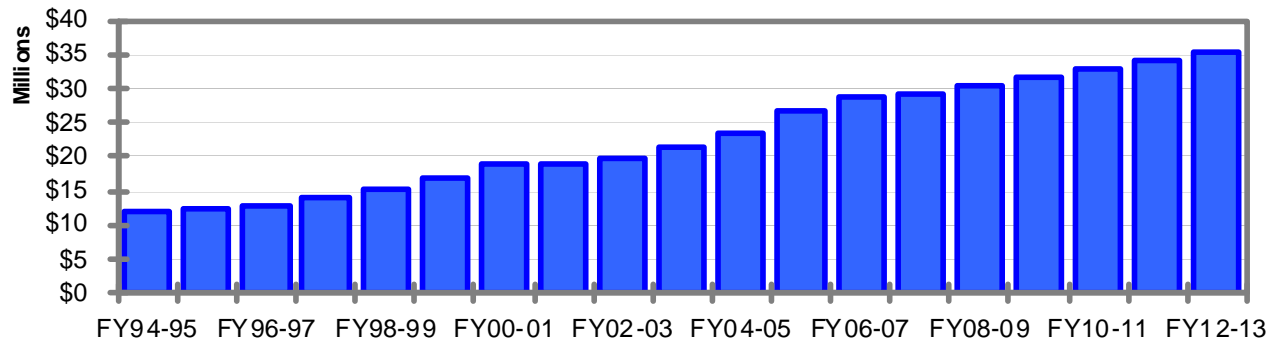
| | |
|--|-------|
| <i>State</i> | 6.00% |
| <i>State Fiscal Recovery Fund (Economic Recovery Bonds)</i> | 0.25% |
| <i>Local Jurisdiction (City or County of place of sale or use)</i> | 0.75% |
| <i>Local Transportation Fund (County of place of sale/use)</i> | 0.25% |
| <i>Local San Diego County Transnet Funding</i> | 0.50% |

Sales tax revenue is highly sensitive to economic conditions, and reflects the factors that drive taxable sales, including the levels of unemployment, consumer confidence, per-capita income, and business investment. In addition, the proximity to the Mexican border and the number of

transactions related to cross border shopping also makes the City’s sales tax revenues particularly susceptible to volatility if a downturn in the Mexican economy were to occur.

Sales and use tax revenue is the City’s single largest discretionary revenue source, accounting for 17.8% of total revenue for the General Fund in fiscal year 2006-07. During fiscal years 2005-06 and 2006-07 sales tax revenues increased by 13.2% and 7.9% respectively. The average growth rate in sales tax revenue per year over the past five years has been 9% primarily due to increased population and the opening of several new commercial centers in the eastern section of the City.

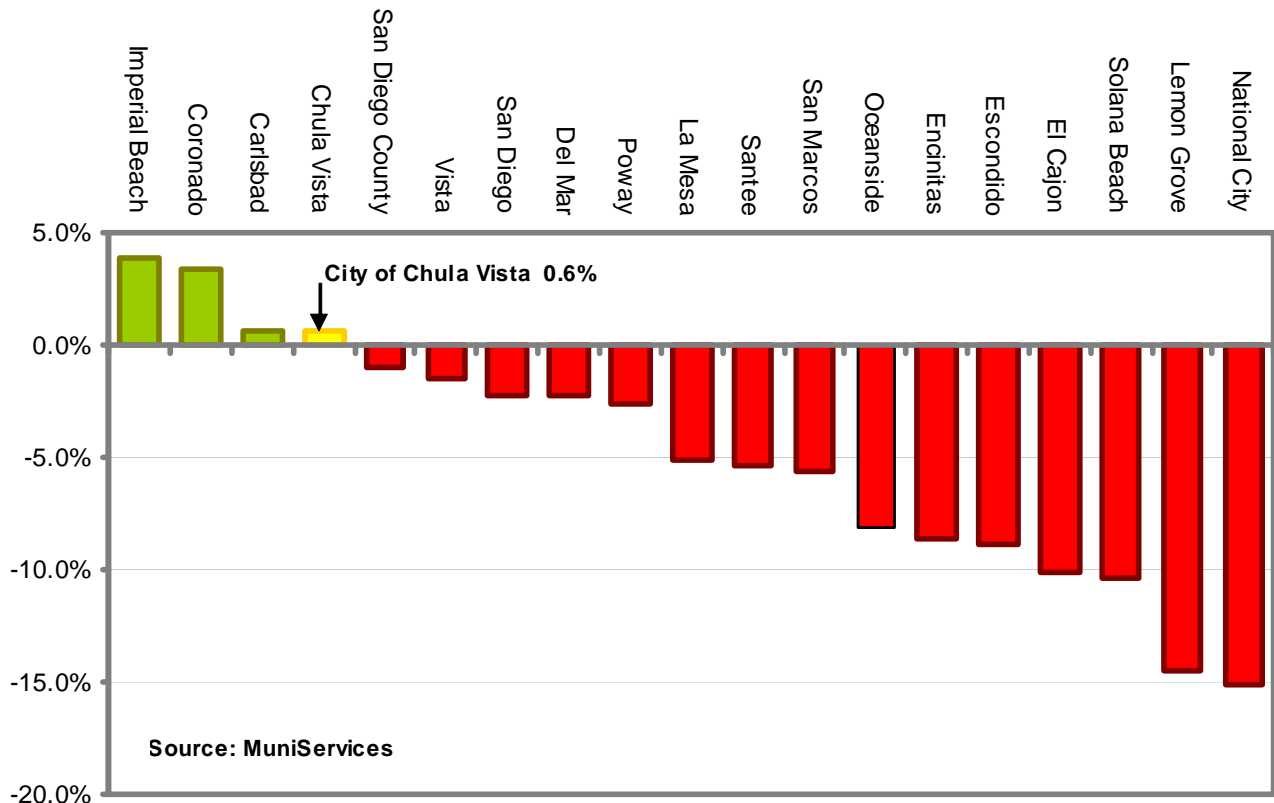
Sales Tax Revenues



Per the most recent sales tax reports jurisdictions across California experienced slow downs or even declines in sales tax revenue during the third quarter of calendar year 2007 (1st quarter of fiscal year 2007-08). Sales tax growth was 0.2% statewide, 0.5% in Northern California, and 0.1% in Southern California. After adjusting for inflation, California actually experienced a decline of –.1% statewide, -2.8% in Northern California and –3.2% in Southern California. The greatest impacts are occurring in the construction, retail and automobile sectors.

During the same period, the City of Chula Vista’s sales tax revenues stayed relatively flat for the same quarter over quarter comparison. The following reflects Chula Vista’s sales tax with that of other jurisdictions in the County.

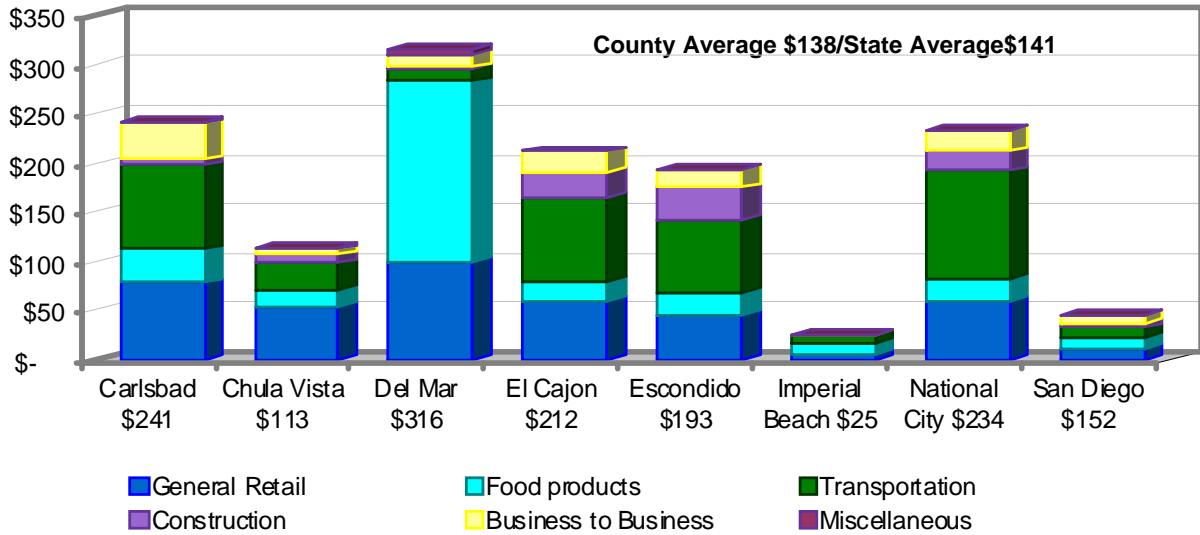
Sales Tax Comparison
1st Qtr to Qtr Comparison
(San Diego County Cities)



Based on the most recent sales tax reports and due to the significant concerns over the national and local economy, the projected increase is assumed at a conservative rate of 0.9% for fiscal year 2007-08 and at an average of 2.8% over the remaining forecast period.

As noted on the following chart, sales tax on a per capita basis for the City is \$113 which is an increase of \$106 from the prior year. The per capita comparison continues to be below the County average of \$138 and the State average of \$141. Although the City is showing improvements towards capturing local tax dollars, there continues to be a significant number of City’s residents who spend a high percentage of retail dollars elsewhere, especially considering that a healthy share of our sales and use tax revenues are generated by cross-border shoppers.

Sales Taxes Per Capita

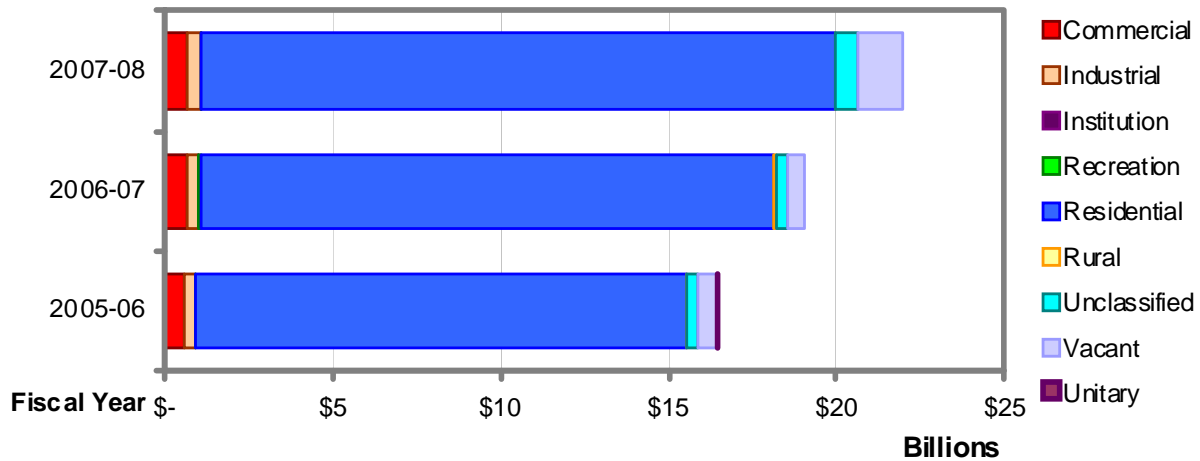


Source: MuniServices

PROPERTY TAXES

Under Proposition 13, which was enacted in 1979, property taxes for general government purposes are limited to 1% of the market value of the property assessed. Assessment of property tax, as well as collection and apportionment of tax revenues are all functions performed by the County. Increases in assessed values to reflect current market values are only allowed when property changes hands or when the property is improved. Otherwise, annual assessment value increases are limited to 2% or the increase in the consumer price index, whichever is lower.

Property tax is the City's second largest revenue source, representing 16.5% of the total General Fund revenue in fiscal year 2006-07. The City's assessed value has increased at historical rates over the past seven years with the largest percent increase of 20% occurring in fiscal year 2005-06. Based on the June 2007 County Assessor's annual assessment report, the assessed values in Chula Vista grew by 14.22% resulting in a corresponding increase in the property tax roll for fiscal year 2007-08. The City had the largest growth of assessed value when compared to other agencies. The increase was due in large part to the increase in commercial centers out in the eastern section of the City and continued expansion of homes in the eastern section of the City.

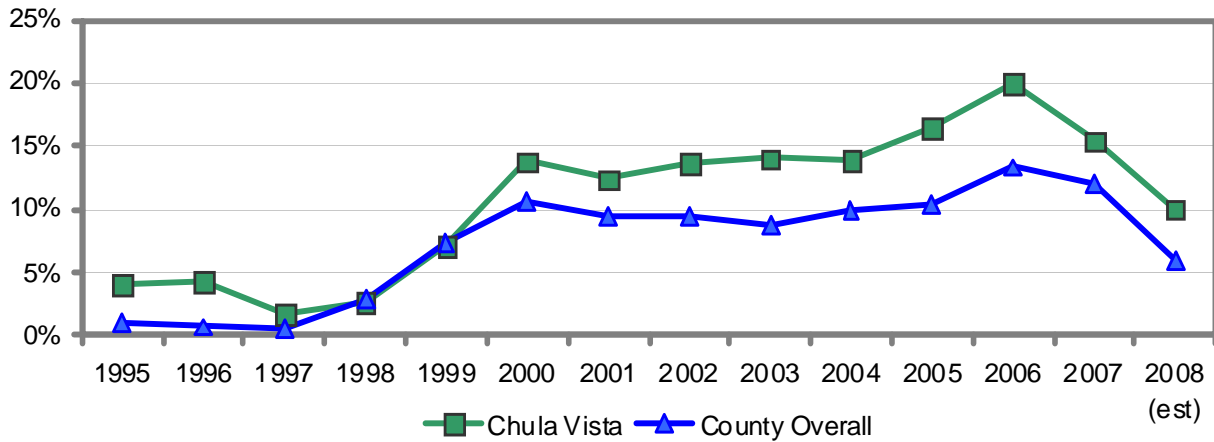


City Only Assessed Value by Land Use

Since the issuance of the County Assessors Report, there has been a significant increase in the number of foreclosures in Chula Vista from the prior year. Per DataQuick Information Systems, notices of default (indicates the homeowner is 90 days late on their mortgage payment) increased from 1,018 in 2006 to 2,617 in 2007 an increase of 157%. Trustee sales (loss of home) went from 194 in 2006 to 1,060 in 2007 an increase of 446%. This is primarily due to the subprime mortgage issue that has resulted in the tightening of mortgage lending practices.

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. Anticipating some level of impact to the city, the fiscal year 2007-08 property tax projections were adjusted from the reported 14.22% increase in assessed value to 10%. This adjustment resulted in a reduction in projected property tax revenues of \$1.2 million. Property tax projections will continue to be conservative in fiscal year 2008-09 based on the assumption that the housing market will not recover during this period.

**Historical Change in Assessed Value
City of Chula Vista and Countywide Comparison**

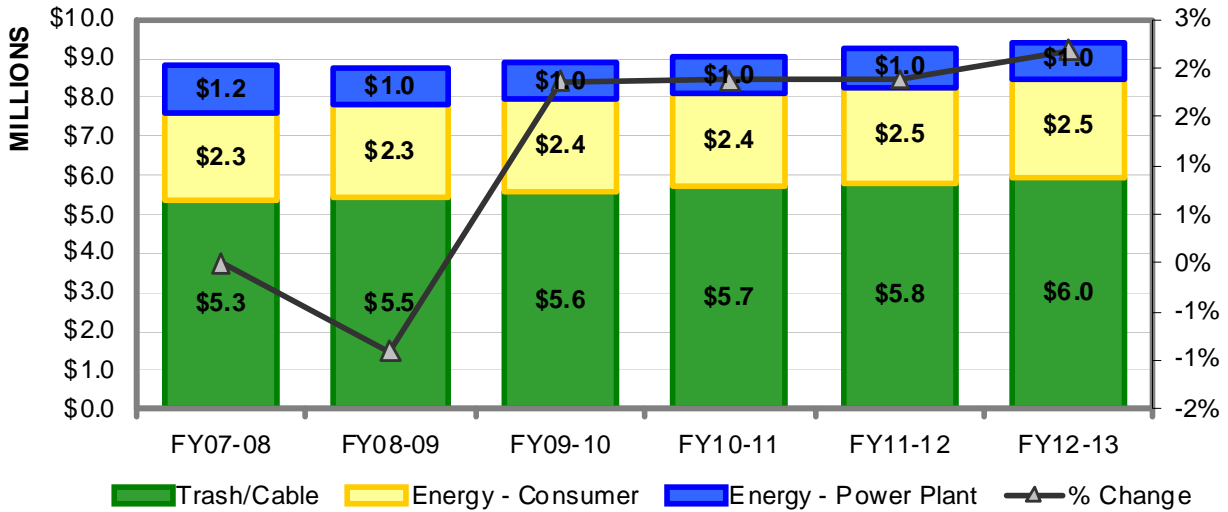


Source: County of San Diego Assessors Office

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 39% 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 and assumes that the revenue generated from the South Bay Power Plant continues throughout the forecast period but at a lower base due to reduced usage.

Franchise Fee Revenues
Projected out Five Years



MOTOR VEHICLE LICENSE FEE (VLF)

The vehicle license fee was initially established back in 1948 and directed to local government. The State had previously assessed a 2% of value VLF on car registrants on behalf of local governments. In May 2004, in an attempt to assist with the State’s fiscal crisis, the State dropped the VLF fee from 2% to .65%. Except for the first three months of fiscal year 2004-05, the State back-filled this fee reduction with other State funds.

Beginning in fiscal year 2004-05, the local government share of VLF has narrowed. Cities continue to receive .65% portion of the fee directly from the State, but this amount is now net of County realignment and administrative reductions. The State backfills the gap created by the fee reduction from 2% to .65% with an additional allocation of local property tax from County ERAF funds, referred to as the VLF swap. After 2006, the VLF swap was valued at the original 2005 amount, and increased by the jurisdiction’s annual growth in assessed valuation. These changes in valuation are reflected in the five-year forecast.

UTILITY USERS TAX

The City adopted its Utility Users Tax (UUT) in 1978. The City of Chula Vista imposes a UUT on the use of telecom at the rate of 5% of gross receipts, which represents 66% 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.

UUT revenues are projected to grow using population factors and are adjusted downward to account for market saturation in the wireless telecom sector due to the shift in usage of landline telephones to cellular telephones and to internet and other private-network communications. SDG&E is the predominant energy provider with dozens of telecommunications providers. UUT is received on a monthly basis from the various providers.

Total UUT revenues received in fiscal year 2006-07 were \$7.0 million, of which \$2.4 million was from energy and \$4.6 million was from telecommunications. Some large telecommunications providers and taxpayers have taken the position that the UUT does not apply to long distance, VoIP (voice over internet), and cellular phone charges. The City will continue to monitor legislation which may require adjustments to the assumptions used in the forecast.

TRANSIENT OCCUPANCY TAX (TOT)

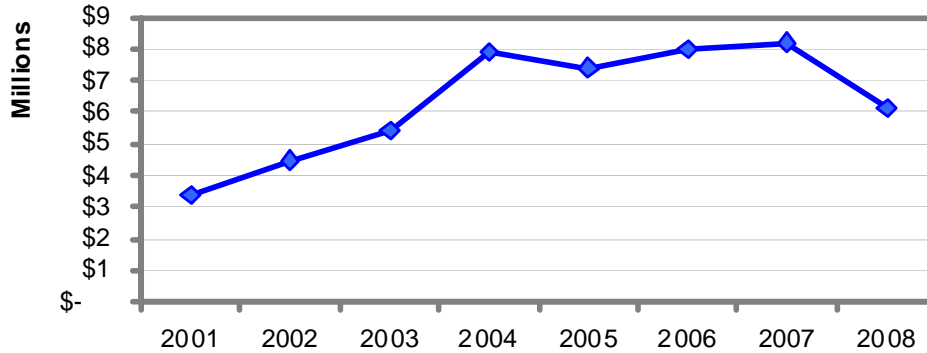
The current TOT rate in the City is 10% and generated \$2.6 million in revenues during fiscal year 2006-07 representing approximately 1.6% of total General Fund revenues. The potential for significant revenue growth is feasible provided quality hotels are built in the City. The ability to generate increased TOT revenues are also being reviewed in conjunction with proposed Bayfront developments.

The City Council recently approved the development of a 150 room Embassy Suites. This will be the first hotel built in the eastern section of the City. Due to the uncertainty regarding the market and with the objective of maintaining a conservative forecast, no additional TOT revenues are assumed related to this development.

DEVELOPMENT RELATED REVENUES

Development revenues have been a significant revenue source in the General Fund during the past 10 years. In fiscal year 2007-08, development revenues represent 7.1% of total General Fund revenues. Development related revenues consist of two categories: development processing fee revenues and deposit based revenues. Development processing fee revenues include building permits, planning fees, other building department fees, and engineering fees. Deposit based revenues are generated through staff time reimbursements related to specific projects.

Deposit Based Revenues

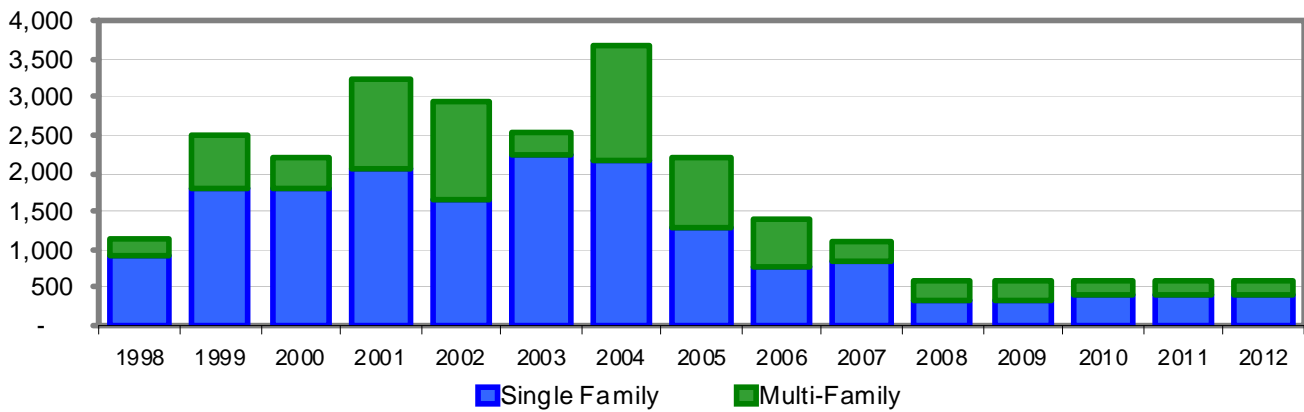


*Actual revenues from 2001 through 2007. 2008 revenues are per current departmental projections.

For forecasting purposes during fiscal years 2008-09, a total of 600 residential units per year are being used to project development related revenues. Beginning in fiscal year 2007-08, development related expenses and revenues will be budgeted and tracked in a separate fund (outside the General Fund). This will assist in identifying any structural imbalances as development fluctuates with the goal of avoiding impacts to the reserves.

Development Activity

Residential Building Permits Issued
By Fiscal Year



Actual Building Permits issued from fiscal year 1997-98 to 2006-07. Forecasted Building Permits issued from fiscal year 2007-08 to 2011-12.

FORECASTED EXPENDITURES

PERSONNEL SERVICES

Position Counts (Full Time Equivalents): There are currently 1,142 full time equivalent positions approved in the General Fund. This total takes into account the 106.5 positions which were permanently cut as part of a Budget Reduction Plan approved by the City Council in December 2007 to address the continued decline in development and the significant slowdown in the economy.

Position Counts

| Bargaining Unit | FY08 | FY08 MidYear | Total |
|-----------------|----------------|----------------|----------------|
| | Adopted | Changes | |
| Executive | 29.0 | (1.0) | 28.0 |
| Sr. Mgmt. | 49.0 | (7.0) | 42.0 |
| Middle Mgmt. | 146.0 | (15.0) | 131.0 |
| Confidential | 30.0 | (2.0) | 28.0 |
| WCEngineers | 35.0 | (3.0) | 32.0 |
| POA | 248.0 | (9.0) | 239.0 |
| IAFF | 112.0 | (1.0) | 111.0 |
| CVEA | 599.5 | (68.5) | 531.0 |
| TOTAL | 1,248.5 | (106.5) | 1,142.0 |

Personnel Service: The personnel category (not including health care premiums and CalPERS) represents 59.5% of the General Fund budget. The personnel category is projected to increase by the approved MOU raises and anticipated increases in workers compensation. The current MOUs are scheduled to expire in July 2010. No salary increases are assumed for any employee beyond the current contract. The forecast assumes no salary savings for vacant positions.

Summary of MOU Salary Increases

January 2006 to January 2010

| Effective Date | IAFF | POA | MISC |
|----------------|-------|--------|-------|
| January 2006 | 8.00% | 10.00% | 3.00% |
| January 2007 | 2.00% | 4.00% | 3.00% |
| July 2007 | 2.00% | - | - |
| *January 2008 | 4.00% | 3.00% | 4.00% |
| January 2009 | 4.00% | 4.00% | 4.00% |
| January 2010 | 4.00% | 4.00% | 4.00% |

IAFF – International Association of Fire Fighters POA – Police Officers Association
 MISC - Miscellaneous Group includes all non-public safety benefited positions.

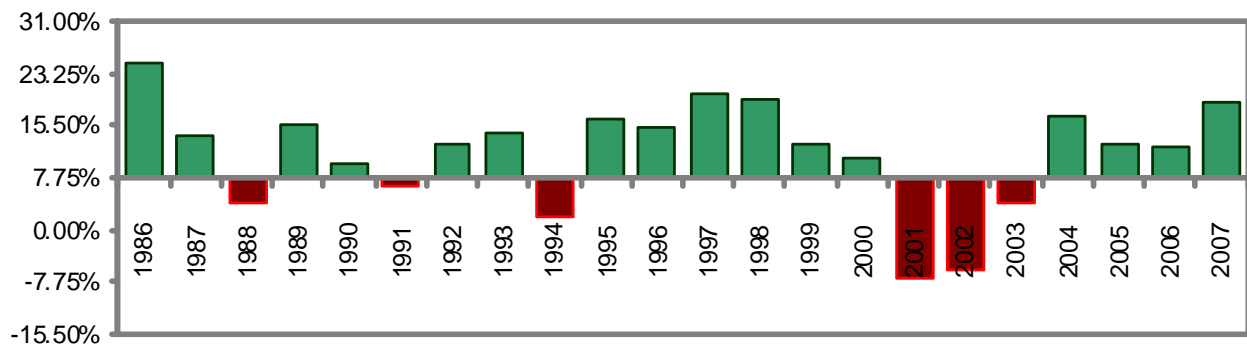
*Date of increase changed per salary deferral agreement discussed below.

Salary Deferral Agreement: As part of the fiscal year 2007-08 balancing plan, the represented bargaining groups agreed to defer the January 2008 salary increase until July 2008. In return the represented groups were to receive two stipend payments which generated savings in fiscal year 2008.

California Public Employees Retirement System (CalPERS): In fiscal year 2007-08, the total expenses related to retirement benefits represented 15.2% of the total General Fund operating budget. CalPERS retirement system pension costs have increased significantly since 2000 primarily due to the investment losses experienced during that timeframe.

CalPERS Historical Market Value Rates of Return

Relative to Assumed Investment Return of 7.75%

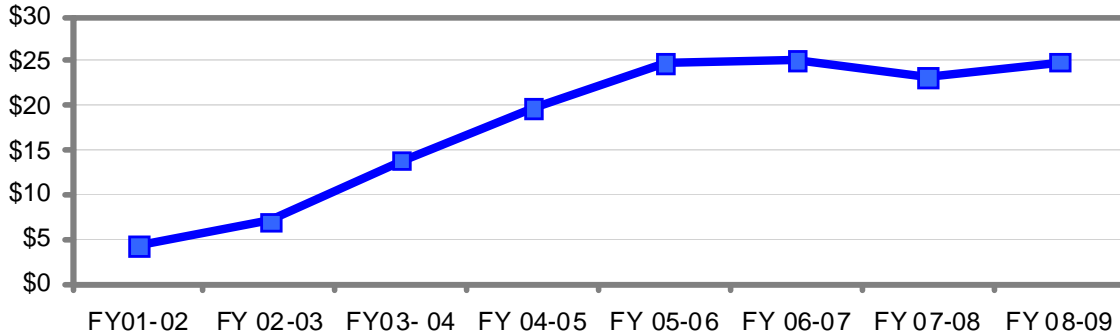


Source: CalPERS

Note: Beginning in fiscal year 2005-06, the estimated rate of return used by CalPERS in calculating employer contribution rates changed to 7.75% from 8.25%.

As defined by CalPERS, “Retirement benefits are funded through contributions paid by contracting employers, member contributions, and earnings from CalPERS investments. Employer contribution rates are determined by periodic actuarial valuations under State law. The actuarial valuations are based on the benefit formulas the agency provides and the employee groups covered. These contribution amounts are expressed as a percentage of active member payroll reported to CalPERS.” The City’s employer contribution rates rose from 0% for public safety and 0% for miscellaneous in fiscal year 2001-02, during a time the City was “super funded”, to 22.3% and 18.3% respectively in fiscal year 2007-08. The budgetary impacts are reflected in the following table.

**CalPERS Retirement
Contribution Costs**



Note: Drop in projected PERS cost in FY 07-08 due to reduced staffing levels.

This expenditure includes both the employer contribution and the city-paid employee contribution. The following table reflects the actual and forecasted employer contribution rates used to project retirement benefit costs. The actual rates were projected by CalPERS and the forecasted rates were provided by the City’s CalPERS consultant Bartel & Associates. The rates have been adjusted to include the increases in contribution rates related to the early retirement program approved by the City Council in October 2007.

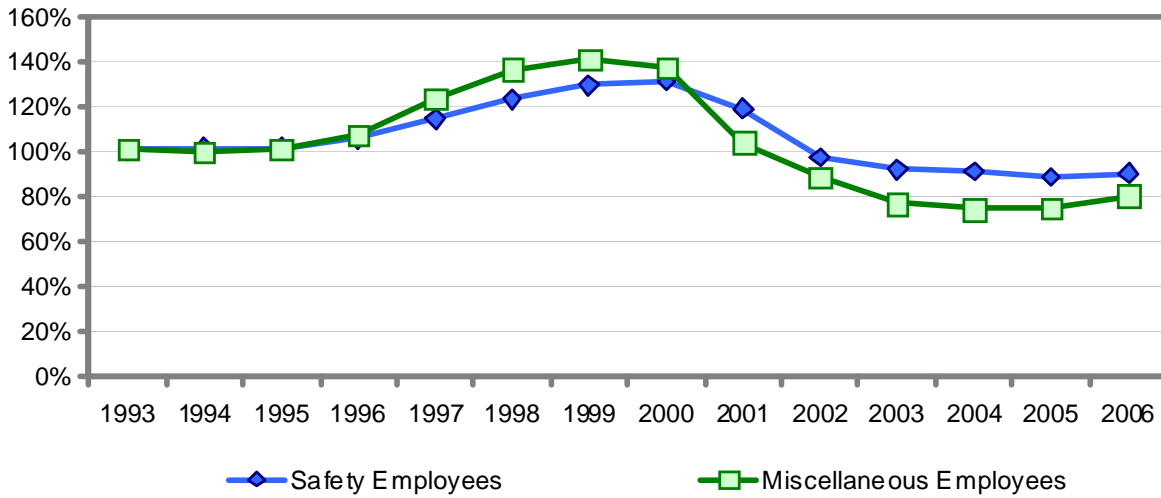
**Employer CalPERS Contribution Rates
Actual and Projected**

| Employee Group | Actual 2007-08 | ⁽¹⁾ Actual 2008-09 | Forecast 2009-10 | Forecast 2010-11 | Forecast 2011-12 | Forecast 2012-13 |
|----------------|-------------------|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| Public Safety | 22.3% | 23.9% | 23.3% | 22.9% | 23.6% | 23.3% |
| Miscellaneous | 18.3% | 18.3% | 18.0% | 17.7% | 18.5% | 18.3% |

- (1) CalPERS provided the 2008-09 employer contribution rates and are included in the base budget. Rates for 20010 – 2013 are projected by Bartel & Associates.
- (2) Rates do not reflect additional costs incurred to repay City’s Pension Obligation Bonds which are scheduled to be paid off in fiscal year 2012.

Funded Status: Based on the Annual Valuation Report issued on October 2007, the funded status for the Public Safety Group and Miscellaneous Group combined was 82% in actuarial value and 84% in market value. The credit rating agencies would consider a funded status over 75% as adequate funding level.

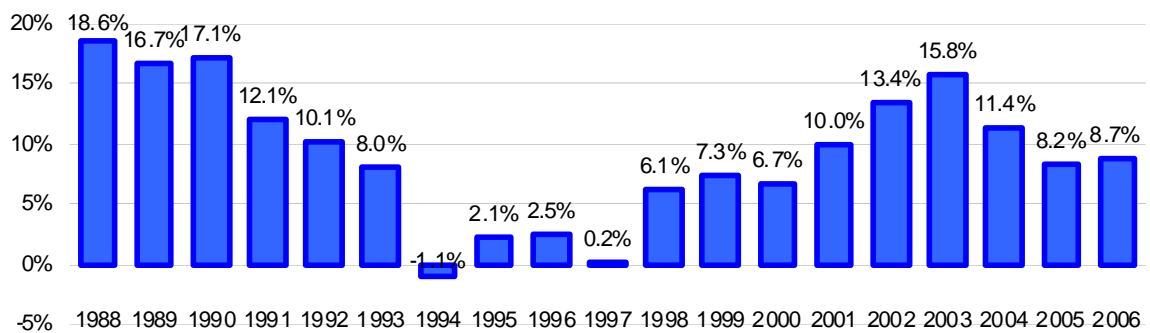
PERS Funded Status



Health Insurance Premiums: Health insurance premiums have increased an average of 10.8% per year since fiscal year 2001-02. The annual budget for flexible spending accounts has increased from \$6.3 million in fiscal year 2001-02 to \$10.4 million in fiscal year 2007-08. Included in the forecast are assumptions that premiums will continue to increase at an average rate of 10% per year.

Increasing Health Care Costs

Average of 9.15%/Year Since 1998



Source: California HealthCare Foundation/Barney&Barney

Other Post Employment Benefits (OPEB): Beginning in fiscal year 2007-08, in accordance with Governmental Accounting Standards Board (GASB) 45, governmental entities will be required to identify and disclose the liability and funding status of other post-employment benefits (OPEBs)

similar to pension plans. This is a significant change in accounting, reporting and disclosure for OPEBs, which are currently accounted for on a pay-as-you-go basis. The most common types of post-employment benefits include health care insurance, life insurance, long-term care and dental insurance for retirees.

As a result of GASB 45, the City underwent an actuarial study which calculated its estimated retiree medical liability at \$8.5 million. This liability will be reflected in the City’s financial statements for the year ending June 30, 2008. Management is currently exploring strategies to address this unfunded liability from a long-term financial perspective. A policy discussion will follow with specific recommendations by management.

DEBT SERVICE

Over the past few years the City has issued \$143 million in debt used to fund several major capital projects such as the new public works yard, police facility and the expansion of the Civic Center. The debt service payments for these capital projects are funded out of various sources such as the General Fund, Residential Construction Fund and Development Impact Fee.

The General Fund’s annual debt service “commitment” is projected to be approximately \$11.9 million, or approximately 7.9% of the projected General Fund operating budget for fiscal year 2008-09. This continues to be within the City Council’s debt service limit policy of 10%. However, it must be noted that although this amount is a General Fund commitment, only \$6.3 million is actually projected to be paid out of the General Fund, which represents approximately 4.2% of the projected General Fund operating budget. The remaining \$5.6 million is paid from other sources such as development fees, tax increment revenues and residential construction taxes.

Major Facility Financing – Debt Service Obligation

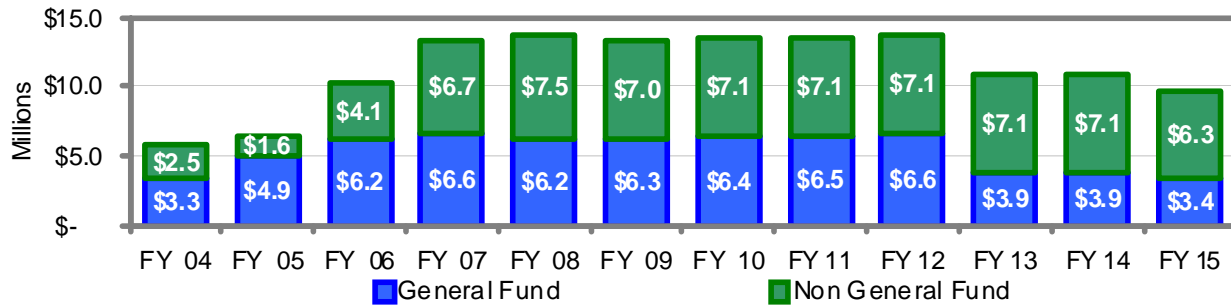
| | Par Amount | Sched. Pmt FY 2008-09 | Interest Rate | Funding Source | | |
|---------------------------------------|---------------|--------------------------|------------------|----------------|-------|------|
| | | | | GF | PFDIF | RCT |
| 2000 COP- Public Works Yard | \$23,730,000 | \$1,863,484 | 5.14% | 41% | 59% | |
| 2002 COP - Police Facility | \$60,145,000 | \$3,911,346 | 4.93% | 56% | 44% | |
| 2004 COP - Civic Center Phase I | \$26,692,417 | \$1,715,506 | 4.65% | 18% | 82% | |
| 2004 COP- Infrastructure Improvements | \$10,547,583 | \$677,887 | 4.65% | | | 100% |
| 2006 COP - Civic Center Phase II | \$18,155,000 | \$1,106,345 | 4.32% | 11% | 89% | |
| 2006 COP- Nature Center | \$2,170,000 | \$166,154 | 4.32% | 100% | | |
| Total | \$141,440,000 | \$9,440,722 | | | | |

GF- General Fund

PFDIF- Public Facilities Impact Fee Fund

RCT-Residential Construction Tax

Annual Debt Service Payments



Note: The final debt service payment for the 1994 Pension Obligation Bonds is scheduled for fiscal year 2011-12, which is approximately \$2.5 million per year.

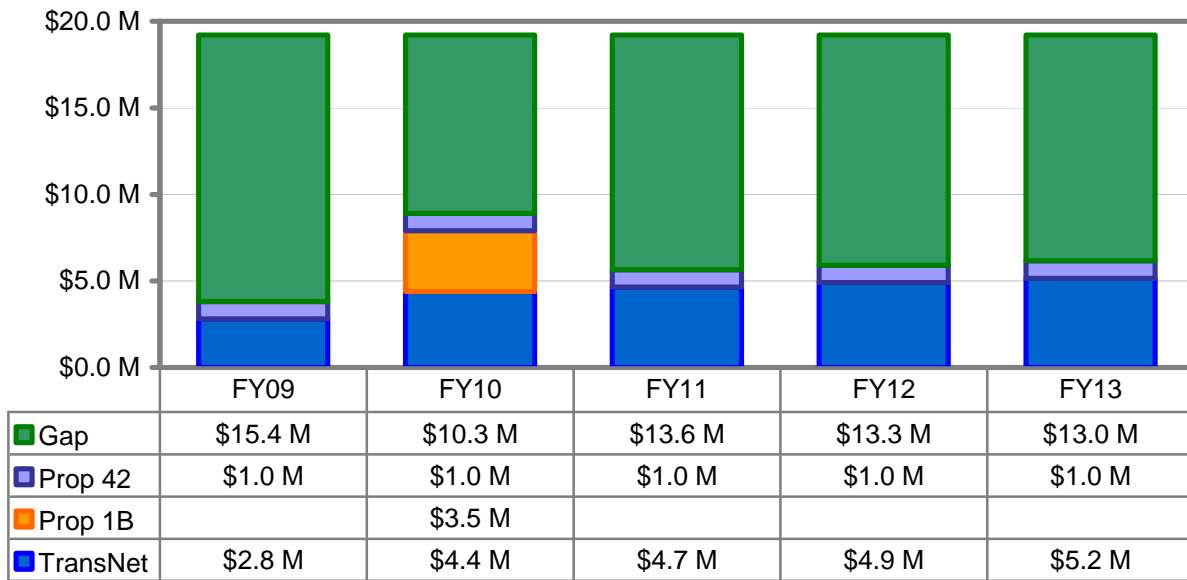
INFRASTRUCTURE NEEDS

PAVEMENT

The City hired a Pavement Management consultant in 2006 to inspect the City’s 441 centerline miles of public streets and alleys in the City and make recommendations on the most effective pavement rehabilitation strategy. At the Council Workshop on April 5, 2007 the overall results of the Pavement Management System were presented to Council discussing the City’s overall pavement ranking at 79 (Overall Good Condition). Although the City’s overall pavement management condition is classified as good, annual rehabilitation is required to prevent continued pavement deterioration. The goal is to perform the most cost effective treatments to maintain the best overall pavement condition, not to just rehabilitate the “worst first”.

The City’s consultant determined that the ideal scenario would be for the City to spend \$19.2 million per year for pavement rehabilitation over the next ten years. This would not only improve the City’s overall pavement condition, but it would eliminate the City’s backlog of streets needing rehabilitation. However, as shown on the following graph, the City’s current pavement funding is insufficient to achieve this goal.

Annual Pavement Funding



Most of the City’s funding from Transnet, the Countywide ½-cent sales tax, is used for pavement rehabilitation. However, current funding levels are projected to be lower than originally anticipated due to a reduction in consumer spending. The above level of spending cannot eliminate the City’s backlog of streets needing extensive rehabilitation, and continued deterioration is expected to occur. Other funding options are being researched and will be brought forward for Council consideration at a future date.

DRAINAGE

On April 7, 2007 the City Council adopted a drainage project priority list. The Priority 1 Tier included nine projects at an estimated 2006 cost of \$28.8 million. Two of these projects have since been completed. The remaining seven projects have an estimated 2007 cost of approximately \$25.15 million. The only dedicated source of funds for drainage projects is the Telegraph Canyon Drainage Development Impact Fee (DIF), which had a fund balance of approximately \$5.66 million as of December 31, 2007. However, these funds can only be used for projects in the Telegraph Canyon Basin, and the remaining Priority 1 projects in this basin are estimated to cost \$14.02 million (2007).

Based on the Corrugated Metal Pipe (CMP) needs identified as part of the 2004 Drainage Master Plan, the City retained a consultant to televise and prioritize replacement/ rehabilitation of the CMP within the City. Approximately 14 miles of the City’s total known 16 miles of CMP

have been televised. The total five-year CMP need was estimated to be \$28.9 million in 2006, with \$2.9 million included in the Capital Improvement Program. This left approximately \$15.14 million either requiring immediate attention or recommended for rehabilitation within one year.

Funding for drainage projects is problematic, since sources used in the past, such as the Residential Construction Tax and Community Development Block Grants, are now reduced and/or otherwise committed. The 70-cent per residence Storm Drain Fee is now used entirely for the City's mandated National Pollution Discharge Elimination System (NPDES) program; an increase in rates would require voter approval under Proposition 218. Staff has been tracking drainage funding authorized by the November 2006 State Propositions 84 and 1E. However, guidelines have not yet been released and funding is anticipated to be through a competitive grant process.

CONCLUSIONS

During these transitional times and environment of economic uncertainty, financial planning is always a prudent activity and development of a long-term financial plan is essential to sound fiscal management. The plan is not able to predict with certainty the City’s fiscal future, rather it will serve as a tool to highlight significant issues or problems that must be addressed if the City’s goal of maintaining fiscal sustainability over the long term is to be achieved.

MAJOR INITIATIVES

It should be noted that this report has focused on the City’s ability to provide for operating service programs that are currently in effect using existing sources of revenue. As the City continues to grow in population, additional parks, public facilities and roads will need to be added in order to maintain service levels mandated by the Growth Management Ordinance. Based on the five year forecast report, funding for any new programs or other major initiatives will require trade offs during the budget process.

FORECAST SUMMARY

This long-term financial outlook continues to identify structural challenges to the City’s General Fund. Specific recommendations to achieve a balanced budget for fiscal year 2008-09 will be presented as part of the budget workshops. Subsequent forecasts will be updated once revenue projections are updated and budget balancing alternatives are identified and approved.

| | 2006-07 Actual | 2007-08 Proj. | 2008-09 Proj. | 2009-10 Forecast | 2010-11 Forecast | 2011-12 Forecast | 2012-13 Forecast |
|--------------------------------|-------------------|------------------|------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues | \$ 161.56 | \$ 149.37 | \$ 150.58 | \$ 153.01 | \$ 157.93 | \$ 163.03 | \$ 168.66 |
| Expenditures/Fund Balance Adj. | \$ (166.15) | \$ (152.88) | \$ (150.58) | \$ (156.61) | \$ (159.76) | \$ (162.81) | \$ (163.12) |
| Subtotal Deficit/Surplus | \$ (4.59) | \$ (3.51) | \$ - | \$ (3.60) | \$ (1.84) | \$ 0.22 | \$ 5.54 |
| General Fund Reserves | \$ 10.34 | \$ 6.83 | \$ 6.83 | \$ 3.23 | \$ 1.40 | \$ 1.62 | \$ 7.16 |
| % Reserves | 6.23% | 4.47% | 4.53% | 2.06% | 0.87% | 0.99% | 4.39% |

Note: Fiscal Year 2008-09 reflects the budget after adjusting for the \$9.8 million gap currently forecasted. The specific cuts to bring the budget in balance will be addressed as part of the budget balancing process currently underway.

Attachment B Redevelopment Agency

The purpose of this five-year financial forecast is to assess the Redevelopment Agency's ability to generate sufficient annual cash flow to pay for its operations and outstanding obligations. Agency obligations include the 20% set aside for the low and moderate income housing fund, debt service payments and statutory and negotiated pass-through payments to the County and school districts. Remaining resources are available for redevelopment projects and administration of the Agency. This five-year financial forecast is for fiscal years 2008-09 to 2012-13.

CA REDEVELOPMENT COMMUNITY ACT

The California Community Redevelopment Act was enacted in 1945 to address problems common throughout not only California but also the country. The Community Redevelopment Act gave cities and counties in California the authority to establish redevelopment agencies, gave the agencies the authority to attack problems of urban decay, and enabled the agencies to apply for grants and loans from the federal government.

In 1951, the Community Redevelopment Act was codified and renamed the Community Redevelopment Law (Health and Safety Code 33000 et seq.). Most importantly, the authority for tax increment financing was added after voter approval of Article XIII, Section 19 (now Article XVI, Section 16) of the California Constitution in 1952.

TAX INCREMENT FINANCING

In accordance with California Redevelopment Law, the Agency obtains funding of its redevelopment projects through a financing method called "tax increment financing." Under this method, assessed values of properties within the Redevelopment Project Areas at the time the redevelopment plan was approved by City Council/Redevelopment Board become the Base Year Value. Any increase in taxable values of properties in the redevelopment area in subsequent years over the Base Year Value becomes tax increment. Collections of tax increments are pledged to the payment of debt service on the obligations issued to finance redevelopment projects. Like other California redevelopment agencies, the Agency has no power to levy property taxes, thus relying exclusively from the collection of property tax increments.

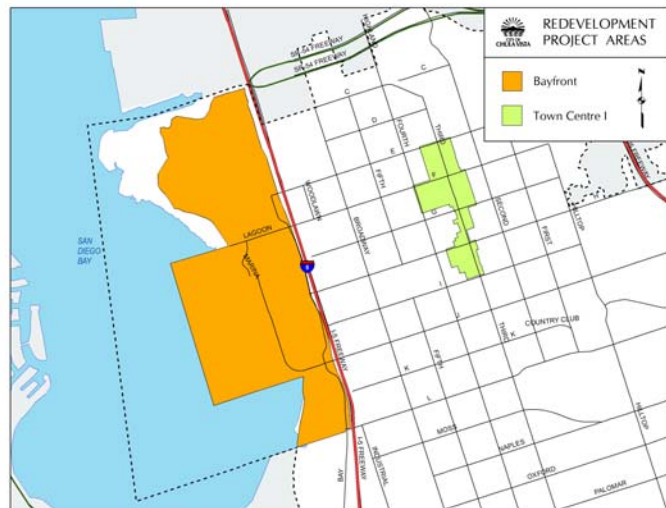
Pursuant to the California Redevelopment Law, redevelopment agencies are required to incur indebtedness in order to receive their allocation of Tax Increment Revenues. Redevelopment agencies typically leverage current Tax Increment Revenues by issuing long term debt (including loans from the City) in order to raise capital to promote economic development within the project area. The new projects constructed, in turn, generate additional Tax Increment Revenues, which, again, may only be captured to the extent that the Agency incurs indebtedness. Indebtedness includes bonded indebtedness, notes, loans, advances, payments due under development agreements, City loans, pass-through agreements, statutory tax-sharing and the obligation to set aside funds for low and moderate income housing.

REDEVELOPMENT AGENCY HISTORY

The Chula Vista Redevelopment Agency was created on October 24, 1972 by City Council Ordinance No. 1425. Since the Agency’s creation, the City has adopted and amended six project areas to encompass a total of approximately 3,563 acres of City territory. Current land uses within these areas are mostly commercial and industrial, but also include residential (primarily high and medium-high density) and public uses (e.g., governmental administrative centers, corporation yards, streets, etc.). In 1979 and 2000, the City financially merged the various project areas into two primary configurations: (1) the Merged Bayfront/Town Centre I Redevelopment Project Area (1979) and (2) the Merged Chula Vista Redevelopment Project Area (2000). The merger of project areas allows the Agency to pool tax increment revenues generated in different project areas and leverage them appropriately to create benefit for the entire merged project area. The following provides a brief historical summary of the Agency’s two merged project areas.

MERGED BAYFRONT/TOWN CENTRE I PROJECT AREA

Following its creation in 1972, the Agency’s initial focus and resources were dedicated to the City’s waterfront and the historic downtown Third Avenue business corridor. On July 16, 1974, pursuant to Ordinance 1541, the City adopted the Bayfront Original Project Area, which encompassed



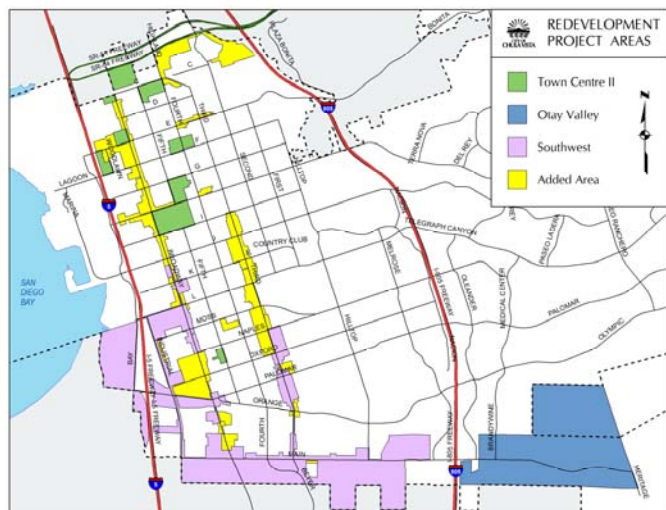
approximately 637 acres of territory east of the mean high tide line.

Two years later, the City adopted the Town Centre I Project Area in 1976, encompassing approximately 138 acres of territory located along and around the downtown Third Avenue business corridor. In July 17 1979, the two project areas were consolidated into a single Merged Bayfront/Town Centre I Redevelopment Project Area to “pool” resources and issue bonds for financing redevelopment activities.

To help facilitate planning efforts along the waterfront, the City adopted the Bayfront Amended Project Area in 1998, adding approximately 398 acres of territory west of the mean high tide line to the Merged Bayfront/Town Centre I Project Area

MERGED CHULA VISTA PROJECT AREA

As the City’s population and economic growth expanded to the south and east during the next thirty years, the City incorporated additional urbanized territories to project areas to leverage expanding development trends to address growing housing and infrastructure needs.



The Town Centre II Original Project Area was adopted in 1978 and included the Chula Vista Shopping Center along with a number of commercial properties along the Broadway business corridor. In 1988, additional territory was added through adoption of the Town Centre II Amended Project Area.

In 1983, the City adopted the Otay Valley Project Area to capture and leverage revenues generated in the City’s Auto Park Specific Plan areas. It encompasses 771-acres and contains light industrial, entertainment and large retail uses, including the Coors Amphitheater, Knott’s Soak City water park, the Chula Vista Auto Park and a 25-acre Chula Vista Public Works Center.

In 1985, the City annexed approximately 2,500 acres known as the Montgomery Area. The Southwest Project Area was established in 1990 to help address the area’s historical infrastructure

issues as an unincorporated County community. Additional territory was added to that area in 1991 through the adoption of the Southwest Amended Project Area. It is the largest project area at 1,050 acres, primarily featuring small family-run industrial and commercial uses, along with residential development.

In 2004, the City approved a new Project Area called the Added Area that includes approximately 494 acres of property that is generally contiguous to the other existing Project Areas and provides opportunities for increased collection of tax increment revenues. Expansion of the Project Area also enables the Agency to more consistently implement redevelopment projects in the majority of the commercially zoned areas in the western part of Chula Vista, particularly Broadway and Third Avenue where (in many areas) the Agency previously did not have redevelopment authority.

HOUSING SET ASIDE

In addition to the plans, activities, and projects just described in the redevelopment work programs, the facilitation and financing of affordable housing in the project areas is an important and mandatory function of redevelopment. As tax increment revenues are generated in redevelopment project areas, 20 percent of the gross revenue stream is immediately set aside and placed in the Low and Moderate Income Housing Fund. Those funds, pooled with other federal and state resources and tax credits, provide an important financing tool to assist in the development of income-restricted, affordable housing projects. Low and Moderate Income Housing Funds also provide important financing for:

- Housing programs, including First Time Homebuyer
- Land purchases for affordable housing
- Rehabilitation of existing multifamily housing

Annual deposits into the Low and Moderate Housing Fund for the next five years are currently estimated to range from \$2.7 million in fiscal year 2008-09 to \$2.9 million in fiscal year 2012-13. Low and Moderate Housing Fund monies may be spent anywhere in the City of Chula Vista. To promote safe and sanitary affordable housing in western Chula Vista, however, the Agency should focus and prioritize these important resources within redevelopment project areas in neighborhoods of greatest need. The construction of new affordable housing within project areas is also required by statute. State redevelopment law contains an inclusionary housing requirement that provides that at least 15 percent of all new and substantially rehabilitated dwelling units

developed within a redevelopment project area be available at affordable housing costs to, and occupied by, persons and families of low and moderate income (Health and Safety Code §33413(b)). Of this 15 percent, at least 60 percent must be available to low and moderate income persons or families. At least 40 percent must be available to very low income persons or families.

REVENUES/EXPENDITURES (FY 2008-09 TO 2012-13)

Over the next five years, the Agency can only undertake those activities that can be financially supported by its revenue stream. The Agency projects tax increment revenues equaling approximately \$13.5 to \$14.6 million from all the Project Areas from FY 2008/09 through 2012/13 respectively to fund necessary administrative activities and projects/programs

The following tax increment revenue projections are based on current assessed values in the project areas and an annual growth rate of two percent for those values. They do not account for future redevelopment projects which may significantly increase tax increment generation in the project areas.

| Combined Project Areas | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 | FY 2012-13 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Tax Increment Revenue | \$ 13,482,900 | \$ 13,752,558 | \$ 14,027,609 | \$ 14,308,162 | \$ 14,594,325 |
| Expenditures | | | | | |
| Statutory & Negotiated Obligations | | | | | |
| Low and Moderate | 2,696,580 | 2,750,512 | 2,805,522 | 2,861,632 | 2,918,865 |
| AB1290 Passthrough | 2,021,111 | 2,061,534 | 2,102,764 | 2,144,819 | 2,187,716 |
| Southwest Passthrough | 1,320,710 | 1,347,125 | 1,374,067 | 1,401,548 | 1,429,579 |
| Goodrich Relocation | 125,449 | 104,960 | 84,061 | 62,745 | 41,002 |
| Debt Service | 4,487,310 | 4,478,794 | 4,477,935 | 4,469,130 | 4,476,591 |
| Total Obligations and Debt Service | 10,651,160 | 10,742,924 | 10,844,349 | 10,939,875 | 11,053,753 |
| Available Resources | \$ 2,831,740 | \$ 3,009,635 | \$ 3,183,260 | \$ 3,368,287 | \$ 3,540,572 |
| Personnel Costs (see note) | 1,412,607 | 1,440,859 | 1,469,676 | 1,499,070 | 1,529,051 |
| City Staff Time | 911,921 | 930,159 | 948,763 | 967,738 | 987,093 |
| Other Costs | 886,876 | 904,614 | 922,706 | 941,160 | 959,983 |
| Total Personnel & Other Costs | 3,211,404 | 3,275,632 | 3,341,145 | 3,407,968 | 3,476,127 |
| Surplus/(Deficit) | (379,664) | (265,997) | (157,885) | (39,681) | 64,445 |

Note: Personnel costs include approximately \$400,000 in funding for budgeted positions that are currently vacant.