5-Year Financial Forecast

Fiscal Years 2011—2015

CITY OF CHULA VISTA

Chula Vista, California

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I. 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, rebuild the reserves to the Council policy level of 8% and within the next 10 years build the operating reserves up to 15%. The General Fund Five Year Forecast serves as a tool to identify financial trends, shortfalls, and issues so the City can proactively address them.

In December 2007, the national economy officially entered a recession, which has been labeled as the worst since The Great Depression of 1929. The City felt the effects of the recession earlier than most agencies primarily due to the rapid residential growth experienced during the past six years and the effects of the foreclosure crisis, which eventually spread across the Country. In order to avoid impacts to the General Fund reserves, the City acted promptly by preparing a comprehensive budget reduction plan which entailed the elimination of 98.0 positions and reductions of approximately $20 million in fiscal year 2009-10.

This long-term financial outlook continues to identify structural challenges to the City's General Fund primarily due to the loss of revenues from the South Bay Power Plant, continued decline in property values and increases in salaries and pension cost. Specific recommendations to achieve a balanced budget going forward will be presented as part of future budget workshops. Subsequent forecasts will be updated once revenue projections are revised and budget balancing alternatives are identified and approved.

> This long-term financial outlook continues to identify structural challenges for the City primarily due to the loss of revenues from the Power Plant, continued decline in property values and anticipated increases in salary and pension costs.

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 annual 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.

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 figures for fiscal years 2008-09, projected figures for fiscal year 2009-10 and forecasted figures for fiscal years 2010-11 through 2014-15.

The General Fund is the primary focus of the forecast report but in order to provide for a broader review of funds, which play into the City's financial health, the Redevelopment Agency was added in the previous years forecast report. This year the financial forecast will be expanded to include the Public Facilities Development Impact Fee Funds. Ultimately the forecast report will also include the Sewer Funds and various other funds which are key components that play into the City's long term financial viability.

Fiscal Health Plan

The Chula Vista Fiscal Health Plan, which was endorsed by the City Council in January 2009, is comprised of four major parts and is an outline designed to move the City back to strong financial standing on a long-term basis.

- Expenditure Cuts
- Revenues
- Economic Development
- Budget and Fiscal Reforms

Expenditure Cuts – The City began making significant expenditure cuts in fiscal year 2006-07 and has continued to do so in an attempt to avoid deficit spending. Including the cuts implemented with the Budget Reduction Plan, the total staff reductions by departments range from -4% to -64%. With the severe reduction in staffing levels citywide, operational reviews are currently being discussed in order to provide an unbiased analysis regarding staffing efficiencies.

Revenues – A comprehensive review of the Master Fee Schedule is underway to ensure that City fees are set at appropriate levels.

Economic Development – A critical element towards the City's long-term fiscal health is the continued development and diversification of the City's revenue base. Potential future growth areas include sales tax and transient occupancy tax from new and expanded commercial development in the City's Bayfront and through a Western Chula Vista Revitalization Program. Development of the Millenia Project (Eastern Urban Center) and the University and Technology Park will contribute towards the City's long-term fiscal stability by providing high paying local jobs.

Budget and Fiscal Reforms - In addition to securing additional revenues, the Fiscal Health Plan recommends implementation of a number of budget reforms. The specific actions recommended include the following:

- Detailed fiscal impact analysis of the short-term and long-term impacts of Council actions in staff reports (Implemented).

- Cross-departmental analyst support (Implemented)

- Update of General Fund Reserve Policy (Approved with long-term goal of building operating reserves to 15%)

- Implementation of zero-based budgeting (In Progress along with the Departmental Operational Reviews)

- Development of a City of Chula Vista Long-Term Financial Strategy for sustainability (In Progress)

Overview of Fiscal Year 2008-09

The severity of the recession which began in the fourth quarter of calendar year 2008 and continued through the second quarter of 2009 placed significant financial pressures on every municipality in the State but particularly cities like the City of Chula Vista which experienced significant growth over the past several years. The City did not waste any time in trying to avoid significant impacts to the City's reserves and implemented a Budget Reduction Plan which included an early retirement program, layoffs, elimination of funding for after school programs, reduced staffing for public safety, reduced operating hours for libraries and recreation centers, overall reduced public hours at all city facilities and an overall administrative freeze on any discretionary spending.

As a result of all these efforts, the fiscal year 2008-09 General Fund reserves ended at $9.3 million. This was the first time in 6 years that the City ended the year without impacting the reserves which is a significant accomplishment considering the magnitude of the economic recession experienced during this time period.

Fiscal Years 2009-10 and 2010 –11 Overview

A balanced fiscal year 2009-10 General Fund budget of $133 million was adopted by Council June 9, 2009. Since that time, revenues have continued to decline as reported in the First and Second Quarter Financial Reports in the current fiscal year. The Third Quarter Financial Report presented to Council on May 25, 2010, projected a revenue shortfall of $4.6 million in the current year. Through a combination of expenditure savings and one-time revenues, the City anticipates ending the current fiscal year with no impact to General Fund reserves. One-time revenues applied to offset the revenue shortfall include $2.0 million in Proposition 42 funds (reimbursement of staff time related to street maintenance costs) and $0.7 million in additional loan repayments from the Redevelopment Agency for outstanding debt owed to the General Fund.

The preliminary base budget for Fiscal Year 2010-11 identified a projected General Fund deficit of $10.9 million. The projected deficit is primarily the result of significant decreases in major revenue sources which primarily occurred in fiscal year 2009-10 coupled with moderate expenditure increases. In an effort to avoid additional service level impacts and employee layoffs, the application of $9.6 million in one time revenues through loan repayments is recommended in the General Fund Spending Plan, leaving $1.3 million to be offset through expenditure reductions and to a lesser degree the identification of new revenues. The application of one-time revenues affords the City the opportunity to continue to monitor economic trends and come forward in the future with additional adjustments, as necessary. There are signs that an economic recovery is on the horizon, and additional expenditure reductions in the future may not be as great as currently projected.

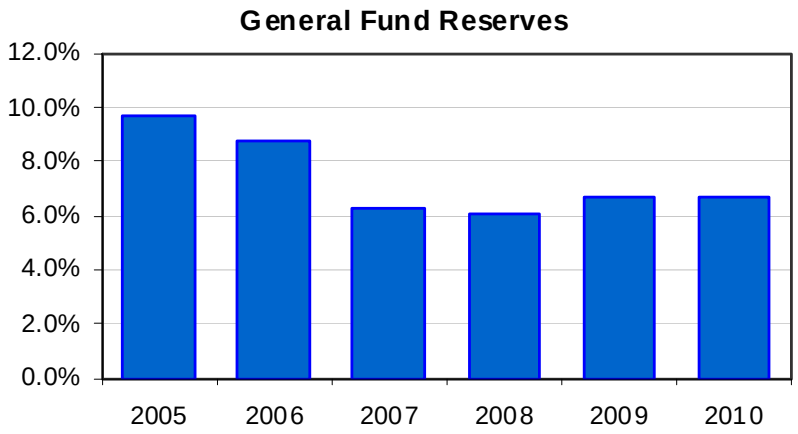
General Fund Reserves

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.

During fiscal years 2007-08 and 2008-09, the City stabilized the General Fund reserves at 6% levels.

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. During fiscal years 2007-08 and 2008-09, due to the City's prompt response to "The Great Recession", as it is now being referred, there was no or minimal impact to the General Fund reserves as shown in the chart below.

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.



Projected Major Revenues and Expenditures

The Five Year Financial Forecast includes a baseline projection of revenues and expenditures used to evaluate the City's future financial condition and capacity to fund existing services and infrastructure needs. The growth assumptions in the baseline projection are based primarily on most recent economic data provided by various sources, a 2% inflation rate, and existing City contractual obligations (e.g. labor agreements and debt service).

General Fund revenues are projected to continue declining due to ongoing economic challenges in 2011 and into 2012. Major discretionary revenues are projected to increase by an annual average of 1.4% during the next five-year period (2011-2015). This compares to a historical annual average increase of 3.3%, over the past five years (2006-2010), which included some historical revenue highs and historical revenue declines. Expenditures are projected to grow at an annual average rate of 1.8% during the next five years which takes into account the final payment of the City's Pension Obligation Bonds in fiscal year 2011-12. The changes take into account the significant downturn in the economy experienced over the past year and the assumption that the economy will experience a very slow recovery.

Forecast Summary/Conclusion

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 2010-11 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.

Forecast Summary

(In millions – further details included under appendix)

	2008-09 Actual	2009-10 Projected	2010-11 CM Proposed	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast
Revenues	$ 140.5	$ 130.3	$ 133.2	$ 123.8	$ 127.1	$ 130.5	$ 134.0
Expenditures/Fund Balance Adj.	$ (140.4)	$ (130.3)	$ (133.2)	$ (136.3)	$ (137.0)	$ (140.3)	$ (142.7)
Subtotal Deficit/Surplus	$ .01	$ 0	$ 0	$ (12.5)	$ (9.9)	$ (9.8)	$ (8.7)
General Fund Reserves	$ 9.3	$ 9.3	$ 9.3				
% Reserves	**6.7%**	**6.7%**	**6.7%**				

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.

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.**

Future Budget Balancing Strategies

As reflected in the financial forecast the City will likely continue to experience financial strain due to the severity of the recent recession and overall economic meltdown.

As presented in the City's Fiscal Health Plan, City Departments are researching various options which would assist in closing the projected ongoing structural imbalance. Included below is a list of the various options which are being reviewed for further consideration prior to the preparation of the fiscal year 2011-12 proposed budget.

- Master Fee Schedule Update – Currently in progress
- Fire Response Fee – Currently in progress
- Storm Drain Fee Update – Currently being reviewed
- Local Sales Tax Outreach – Business to Business Focus – Currently being reviewed
- Alternative Power Plant – Currently being reviewed

- Pension Reform – Options to be reviewed
- Debt restructuring options for the Police Facility COP – Options to be reviewed
- Advertising on City Vehicles – Options being reviewed
- Franchise Fee Review – Options to be reviewed
- Parcel Tax for Public Safety – Options to be reviewed
- Additional service reductions – Options to be reviewed

These options will be reviewed as part of the City's Long Term Financial Strategy, which will include a 10-year outlook of the City's General Fund.

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II. Economic and Demographic Assumptions

UCLA Anderson Forecast - National Forecast

As reported in UCLA's Press Release for the first quarter report of 2010, the UCLA Anderson Forecast renders a "bipolar" diagnosis for the national economy, referencing the dual conditions of slow-but-sure growth in the national gross domestic product (GDP), coupled with an unemployment rate predicted to remain in double digits until 2012. The California economy remains focused on job creation as well, with conditions ripe for growth that has yet to appear.

In a report titled, "The Bipolar Economy," UCLA Anderson Forecast Senior Economist David Shulman explores the duality of a national economy, where GDP is growing while job creation remains scarce – and is expected to remain scarce through 2012. Shulman suggests that Washington's economic stimulus packages may have unintentionally caused the economic schizophrenia. Tax cuts and spending programs, coupled with a non-sustainable zero interest policy spur growth, but businesses do not make long-term hiring decisions based on temporary government policies. "Nevertheless, the economy is now on a growth path and employment will soon be increasing, albeit modestly," Shulman writes.

The Forecast's case for recovery is based on strength in business equipment and software, exports and a revival in home construction from postwar lows. With the exception of housing, these factors are already making positive contributions to the economy. Growth will be held back by declines in non-residential construction and stagnation and retraction in the state and local government sectors. The Forecast expects the economy to grow at a 3.2% rate for the first quarter of this year, and then level off to about 2%, leaving 2010's overall growth around 2.3%. In 2011 and 2012, GDP is forecasted to be 2.3% and 3.2% % respectively. However, payroll employment is still forecasted to be two million jobs below the 2007 peak at the end of 2012.

In a cautionary note, Shulman opines that the real risk to the economy is inflation, as the Federal Reserve's monetary policy has created circumstance ripe for inflation. Shulman believes the Fed understands this risk, will tighten monetary policy and that inflation will remain under control. [1]

UCLA Anderson Forecast - The California Forecast

Writing about California, UCLA Anderson Senior Economist Jerry Nickelsburg notes that despite the recession having officially ended, California's unemployment rate continues to rise, while local governments continue to shed jobs. The outlook for the balance of 2010 is for little or no growth in the state, with the economy picking up speed slightly by the beginning of next year. More normal growth rates for California should be in place by the middle of 2011. The keys to California's recovery are a growing demand for manufactured and agricultural goods from outside the state, the

[1] UCLA Anderson Forecast Press Release March 24, 2010

recovery of U.S. consumption, which increased the demand for Asian imports and for products from California's factories, increased public works construction and increased investment in business equipment and software.

The Forecast calls for employment in 2010 to climb but not to exceed levels of 2009. Once employment growth returns in 2011, employment will begin to grow faster than the labor force at a 2.3% rate and the unemployment rate will begin to fall. Real personal income growth is forecast to be 1.3% in 2010 and 3.7% and 4.5% in 2011 and 2012 respectively. The unemployment rate – currently at 12.5% -- will fall slowly through the balance of this year and should average 11.8% for 2010. Though the state's economy will be growing, it won't be generating enough jobs to push the unemployment rate below double-digits until 2012.[2]

USD Index of Leading Economic Indicators

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

The outlook for the local economy remains unchanged from recent months: If the local economy did not bottom out at the end of 2009, it likely did in the first part of 2010. As was mentioned in previous reports, employment is the indicator that comes out most regularly at the local level, and employment tends to be a lagging indicator in recent recessions and recoveries. March employment numbers show a gain of 5,000 jobs compared to February, which was the best monthly gain in local employment since February 2008. The unemployment rate still edged up for the month because more workers returned to the workforce in search of employment, which itself is a positive development. It is a sign that the unemployed are a little more optimistic about their prospects and not so discouraged as to give up looking for work altogether.

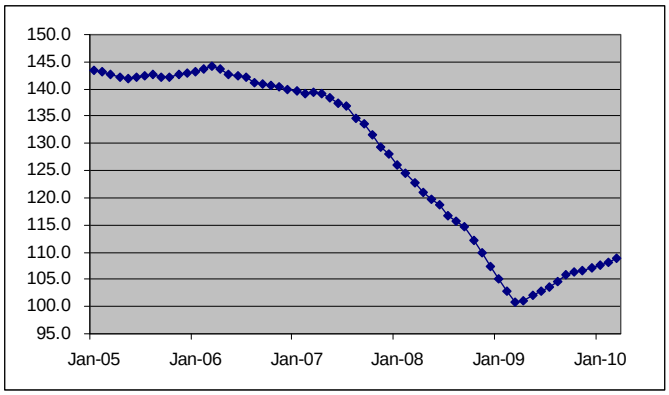
Residential units authorized by building permits finished the first quarter of 2010 up 21 percent compared to the same period in 2009. The recent strength in the owner-occupied housing market in terms of prices and sales led to single-family permits nearly doubling (up 97 percent) in the quarter. However, activity in multi-family construction remains weak, with permits down almost 36 percent compared to the first quarter of 2009. Both of the labor market components continue to do well. Initial claims for unemployment insurance fell for the sixth straight month, which is a positive for the Index, while help wanted advertising was up for the fifth straight month. Help wanted advertising is now at its highest level since December 2008. However, the local unemployment

[2] UCLA Anderson Forecast Press Release March 24, 2010.

rate remains at a high 11 percent in March, compared to revised rates of 11.1 percent in January and 10.7 percent in February. The trend in local consumer confidence continues to be negative, although, as in the past, the raw value for the component was actually higher in March. Local consumer confidence has now fallen over 13 percent compared to the recent peak reached in August of last year. Local stock prices rebounded with the rest of the financial markets to finish up 10.6 percent for the first quarter. The national Index of Leading Economic Indicators continues to advance solidly and has now also been up for an entire year. The labor market appears to be improving, with the national economy adding 162,000 jobs in March, which was the strongest gain since March 2007. Growth in the Gross Domestic Product (GDP) for the fourth quarter of 2009 was revised downward but still remained strong at a 5.6 percent annual rate.

March's increase puts the USD Index of Leading Economic Indicators for San Diego County at 109.0, up from February's revised reading of 108.0. Revisions in building permits and the national Index of Leading Economic Indicators affected the previously reported changes and level of the USD Index for both January and February. The values for the USD Index for the last year are given below.[3]

San Diego Index of Leading Economic Indicators

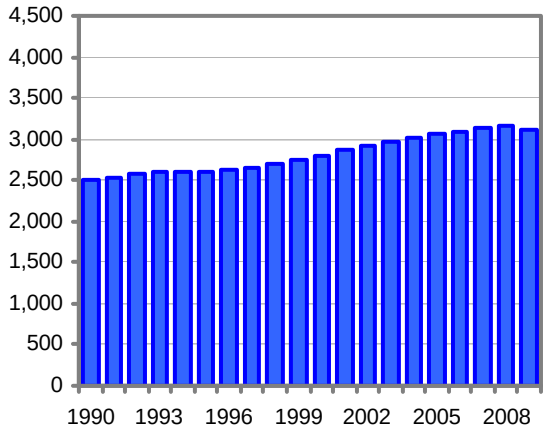


Population and Housing

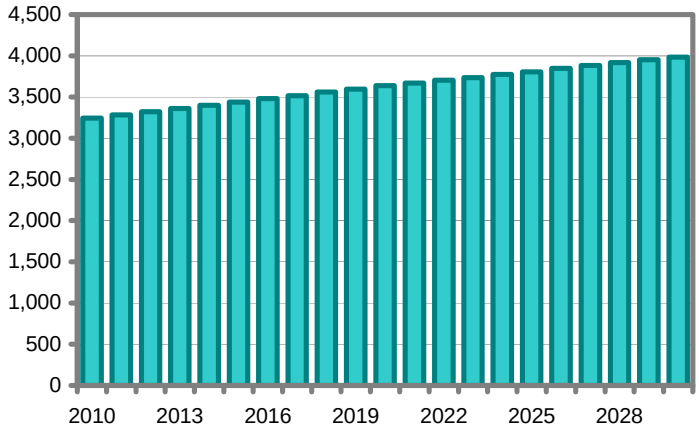
Overall annual population growth for San Diego County from 1990 to 2007 has averaged 1.275%. Since 1990 the annual growth has outpaced the US and represents steady moderate growth within the State. Per estimates provided by SANDAG (San Diego Association of Governments), the forecasted annual growth from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

[3] University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, April 28, 2010..

Historical County Population 1990-2009



Projected County Population 2010-2030



Source: County population per State Department of Finance.
Source: County Projections from SANDAG 2030 Regional Growth Forecast Update

In 2003, based on population estimates released by the Census Bureau, Chula Vista was identified as the 7th fastest growing city in the United States. The growth continued through 2006. By mid-2007 the mortgage crisis came to light and the City began experiencing a significant number of foreclosures. According to "*UCLA Anderson Forecast San Diego County Economic Outlook For 2009 Report*", "Escondido and Chula Vista had the highest foreclosure rates at 13.4 and 12.4 foreclosures per 1,000 homes, respectively. Rates of foreclosures peaked in most areas sometime between October and December of 2008. All regions have shown declines in the rate of foreclosures between December 2008 and May 2009." The Anderson forecast states that based on information received for the first three months of 2009, the bottom may have been reached in San Diego County.

Data for Oct 2009 Compared to Oct 2008

Zip Code	Locale	Median Price 2009	Median Price 2008	Percent Change
91910	North	$310,000	$267,000	16.1%
91911	South	$250,000	$252,000	-0.8%
91913	Eastlake	$333,750	$325,000	2.7%
91914	NE	$434,000	$501,500	-13.5%
91915	SE	$345,000	$359,500	-4.0%

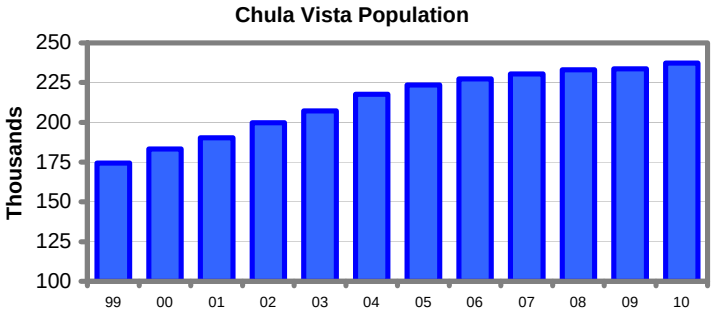
Source: San Diego Union

Foreclosures had a significant negative impact on property tax revenues 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

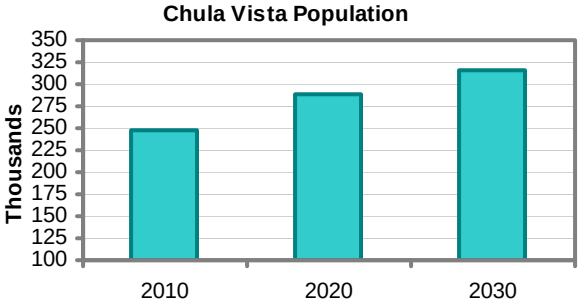
of their homes which would lead to a reduction of property taxes based on the lower assessment. Positive signs related to the housing market are beginning to be reported. In May 2010, based on information from DataQuick, a real estate analytical firm in San Diego, reported that San Diego County's resale housing prices rose 14.7% in the first quarter of 2010. In addition, DataQuick's median price for San Diego was $360,000 for single-family homes, up 14.3% from a year ago. All very good trends which should lead to greater stability to the City's property tax revenue base.

The California State Department of Finance (DOF) estimated a Chula Vista population of 237,329 as of January 1, 2010. The General Plan identified the capacity for an additional 30,000 units throughout the City through build out. Over the next decade residential growth rates are expected to be significantly below the growth experienced during the development boom years of 1999 - 2005.

Historical City Population 1990-2010



Projected City Population 2010-2030



Source - Population data for 1999 to 2009 reflects California Department of Finance comprehensively revised population figures as of January 1st.

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

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III. General Fund Revenue & Expenditure Assumptions

The previous financial forecasts 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. Unfortunately, in December 2007, the national economy officially entered a recession, now projected to be the worst since the Great Depression of 1929. This significant decline in economic activity severely impacted all economic sectors including government agencies. The City of Chula Vista felt the effects of the recession earlier than most agencies primarily due to the rapid residential growth experienced during the past six years and the effects of the foreclosure crisis, which eventually spread across the Country. The City has been going through ongoing budget adjustments in an attempt to bring its expenditures in line with revenues as the economy continued to deteriorate.

Current economic reports indicate that the nation is finally showing signs of recovery. Revenue estimates contained in this forecast are based on assumptions that property tax and vehicle license fees will continue to drop into fiscal year 2010-11 due to continued adjustments downward in the property values but increase at modest levels for the remainder of the forecast period. Other major revenues such as sales tax are assumed to flatten out in fiscal year 2010-11 with modest increases thereafter. The assumptions will continue to be conservative due to the common belief that the recovery will be very slow due to the severity of the economic downturn experienced over the past two years.

Forecast of Major General Fund Revenues

% Changes from Prior Year

Revenue Category	5 yr Avg FY 06-10	Actual 2008-09	Projected 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Property Tax	7.8%	-0.2%	-13.5%	-4.9%	0.9%	3.9%	3.9%	4.0%
Sales Tax	0.1%	-9.6%	-9.2%	1.7%	2.0%	3.0%	3.0%	3.0%
Franchise Fees	-2.8%	-2.9%	-10.0%	-9.4%	1.9%	1.9%	1.9%	1.9%
MVLF	5.9%	0.5%	-11.0%	-4.4%	2.0%	3.9%	3.9%	3.9%
Utility Users Tax	7.7%	6.4%	19.8%	-6.9%	0.5%	0.5%	0.5%	0.5%
TOT	-2.5%	-14.6%	-15.7%	0.0%	2.0%	2.0%	2.0%	2.0%

Notes for Fiscal Year 2009-10 and Fiscal year 2010-11:

Property Tax and Motor Vehicle License Fee change reflects drop in Assessed Values per County of San Diego – Assessors Office.

Sales Tax change reflects continued impacts related to recent economic downturn. This is based on most recent report from Muniservices 3rd quarter update and County of San Diego.

Franchise Fees and UUT anticipate closure of South Bay Power Plant in Fiscal Year 2011.

Following are some key assumptions applied in the preparation of the financial forecast and are reflected in the tables above:

Economic & Population Growth

- Inflation is a measure of the increase for the cost of goods and services. Inflation impacts many revenues, such as rents and leases, and most expenditure categories throughout the five-year forecast and is projected to average 2% per year which is a conservative assumption based on recent projections provided by the UCLA Anderson Forecast.

- The regional economies will begin to recover at very moderate levels.

- City population will continue to increase but at significantly lower rates than in the past five years.

- Millenia Project (Eastern Urban Center) and Bayfront Development – No additional revenues or operating expenses are assumed related to the Millenia Project or the Bayfront project area. As timing of development becomes more certain the revenues and operating expenses related to additional service demands will be added to the forecast.

Major Revenues

- Sales Tax revenues will remain relatively flat in fiscal year 2010-11 with moderate increases throughout the remainder of the forecast period.

- Base assessed value will fall by approximately 4% from fiscal year 2010 to fiscal year 2011 due to the continued fall out of the subprime mortgage and carryover into the commercial sectors. Beginning in fiscal year 2012-13 and throughout the remainder of the forecast period, assessed values are assumed to increase by 3.9% per year.

- No additional State takeaways are assumed in the projections although cash flows continue to be impacted due to the delayed payments in sales tax, vehicle license fees and gas tax funds.

- The Redevelopment Agency continues to fund loan repayments to the General Fund at an average of $1.5 million per year with the exception of fiscal year 2010-11 which reflects an additional significant one time loan repayment from the Redevelopment Agency of $9.6 million.

Personnel Categories

- Expenditures related to negotiated salary increases are reflected in the forecast based on currently negotiated Memorandum of Understandings. No additional raises, other than regularly scheduled step increases, are assumed beyond the current MOU's.

- Flex Plan increases of 10% per fiscal year based on historical health care premium increases.

- CalPERS retirement contribution rates will continue to increase due to market losses and the additional cost related to the City's early retirement programs. There will be a

significant increase in the City's required annual contribution, estimated at $3.0 million, in fiscal year 2013-14 due to investment losses which occurred in 2008 and 2009.

- A 2% salary savings factor is assumed anticipating additional vacancies through attrition in each forecast year.

- All current vacant positions are assumed to remain vacant during the forecast period. This has been the strategy used by the City in the past to avoid lay-offs during these tough economic times.

- No additional personnel are assumed for new facilities (i.e. parks).

- Fiscal year 2011-12 reflects final scheduled debt payment for Pension Obligation Bonds.

Additional Assumptions

- Nature Center is no longer receiving financial assistance from the City for operating costs although in-kind services and debt obligations continue to be funded by the City.

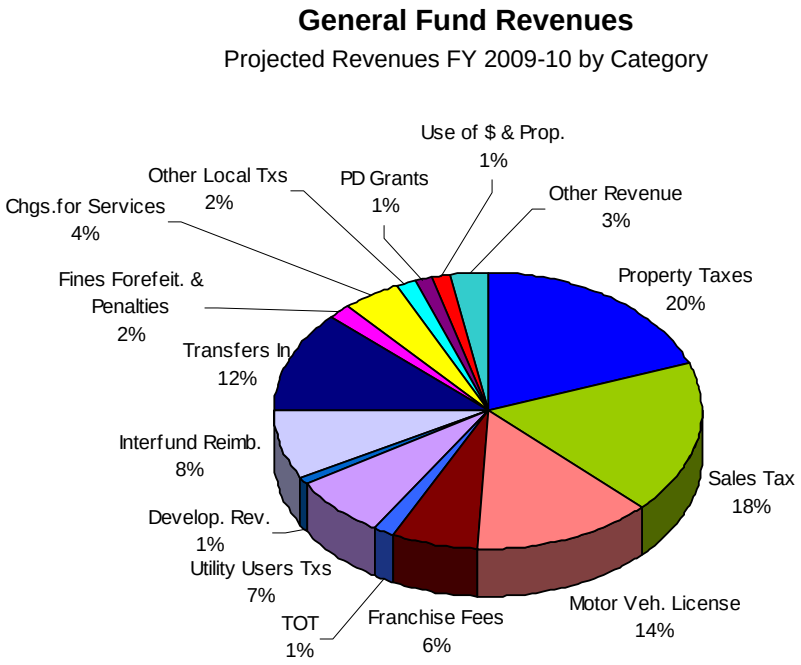
- Franchise Fee revenue projections assumes that the South Bay Power Plant will cease to operate after fiscal year 2009-10 resulting in a loss of approximately $1.0 million to $2.5 million in discretionary revenues. No other power plant will be in operation to offset the loss.

- Assumes that the Development Services Fund will not require future subsidies from the General Fund in order to stay balanced.

Additional details related to the assumptions are discussed in the following sections of the report.

CITY OF
CHULA VISTA

IV. General Fund Revenues

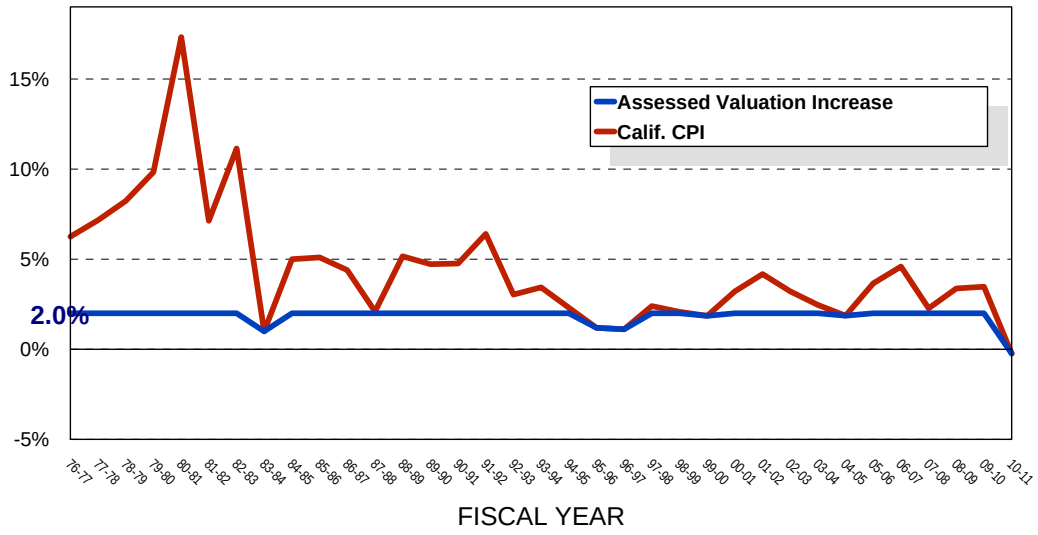


One of the City's strengths has been its diversified revenue base. A diversified revenue base lessens the impact that fluctuations in specific economic sectors have on the City's ability to provide services. Although the City maintains a diversified revenue base, the current recession was so severe that almost every revenue category was impacted. It will be imperative to the City's fiscal sustainability that it continues to focus on adding to the base by capturing revenues such at City's TOT (hotel tax) by attracting additional hotels.

Property Taxes (Fiscal Year 2009 –10: $25.3 million 20% of General Fund revenues)

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 qualifying property, as well as collection and apportionment of tax revenues are all functions performed by the County. Increases to 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. As the chart below indicates, it will be the first time on record that the CPI actually has gone negative. As a result, the County Assessor will adjust the entire Assessed Value base impacting property tax revenues received by taxing agencies.

ASSESSED VALUATION ADJUSTMENTS
DRIVEN BY CHANGES IN THE CPI

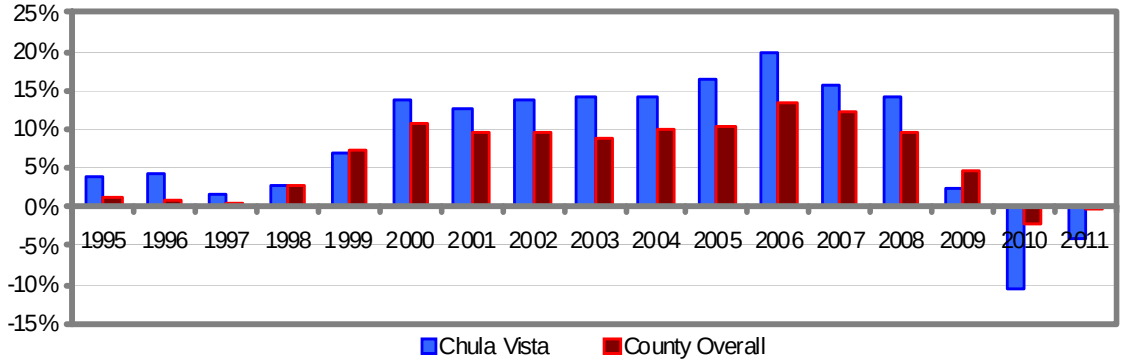


Property tax values have continued to fall during this economic recession with Chula Vista being one of the harder hit areas. The large number of foreclosures have depressed housing values, and the significant drop in home resale prices has dramatically reduced supplemental property tax revenues. Supplemental property taxes are calculated based on the difference between the current value of a property and the resale value of the property. Typically, property values increase as a property is resold. Due to the current housing crisis, most home resale values have dropped, resulting in a large reduction in supplemental property tax revenue.

Property tax revenues, projected at $25.3 million for fiscal year 2009-10, is the City's single largest discretionary revenue source and accounts for 20% of the total revenue for the General Fund. Based on projections provided by the County Assessors Office, assessed values in Chula Vista increased by 14% in fiscal year 2007-08 and 2% in fiscal year 2008-09. The most recent report from the County Assessor shows a decline of –10.4% in assessed values for fiscal year 2009-10. ***Based on recent analysis by the County Assessors Office, preliminary estimates show that Chula Vista assessed values for fiscal year 2010-11 may fall an additional 4% from the prior year. The forecast reflects the continued decline in values.***

Historical Change in Assessed Value

City of Chula Vista and Countywide Comparison



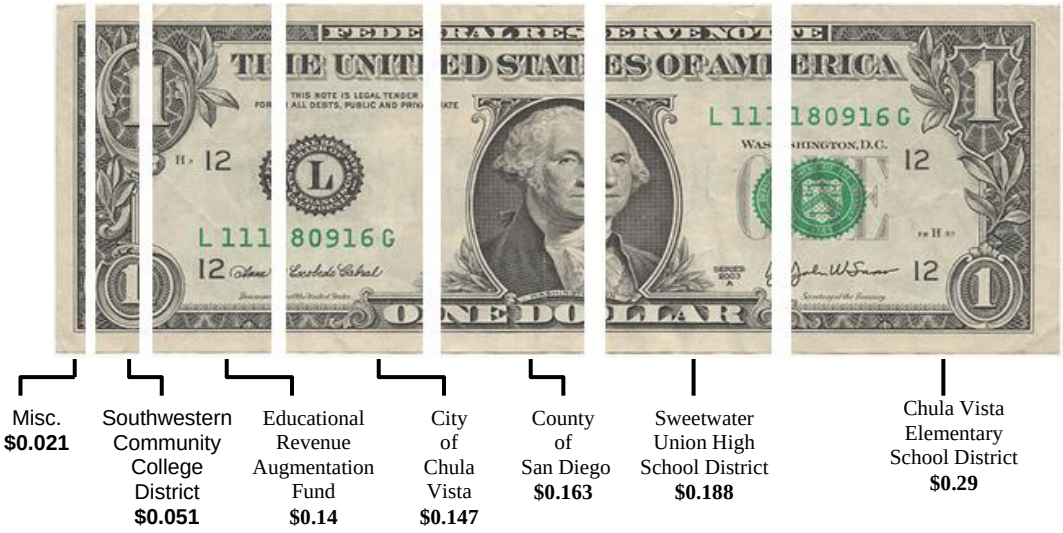
Source: County of San Diego Assessors Office. The 2011 assessed value change is a preliminary estimate provided by the County.

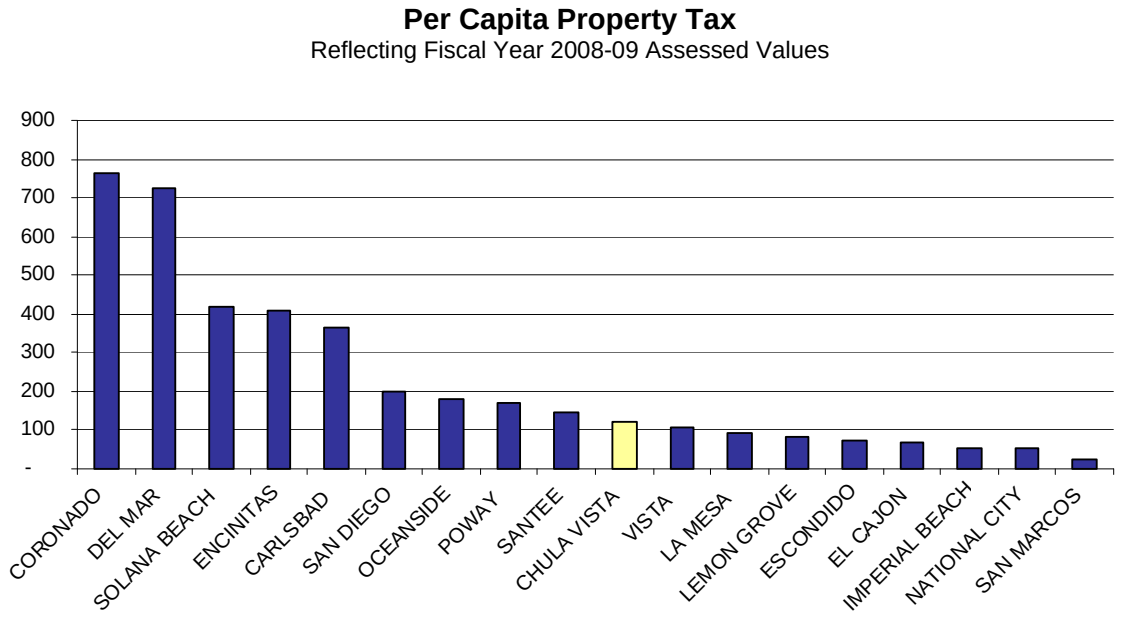
Fiscal Year	Actual 2009	Projected 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
Property Tax	$ 29,258,925	$ 25,311,485	$ 24,073,147	$ 24,287,941	$ 25,233,722	$ 26,217,154	$ 27,254,540
% Change	-0.2%	-13.5%	-4.9%	0.9%	3.9%	3.9%	4.0%

*Property Tax revenues are projected at -13% in FY 2010 due to continued delinquencies and refunds as reflected in the January 2010 report from the County Assessor.

Many residents believe that property tax fully funds local government costs. The reality is that the City of Chula Vista only receives an average of 14.7 cents out of every property tax dollar paid by City residents. This is less than the amount received by the school districts and the County. In fact, the amount the City receives is about equal to the amount that the City and the County lose each year to the Educational Revenue Augmentation Fund (ERAF). The ERAF is the amount the State takes from both cities and counties to provide additional funding for schools. The City's ERAF loss projected for fiscal year 2007-08 is $6.6 million, for a $60.5 million cumulative reduction since ERAF began in fiscal year 1992-93.

Where do your Property Tax Dollars Go?





Sales Taxes (Fiscal Year 2009 –10: $23.2 million 18% of General Fund revenues)

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 8.75% for the San Diego County region. The sales tax revenues are then allocated based on the following rates:

State	*7.00%*
State Fiscal Recovery Fund (Economic Recovery Bonds)	*0.25%*
Local Jurisdiction (City or County of place of sale or use)	*0.75%*
Local Transportation Fund (County of place of sale/use)	*0.25%*
Local San Diego County Transnet Funding	*0.50%*
**Total Sales Tax Rate – Chula Vista*	*8.75%*

**Total sales tax rates will vary by City due to local sales tax initiatives. For example, National City's sales tax rate is 9.75% due to voter approved increase of 1% funding public services.*

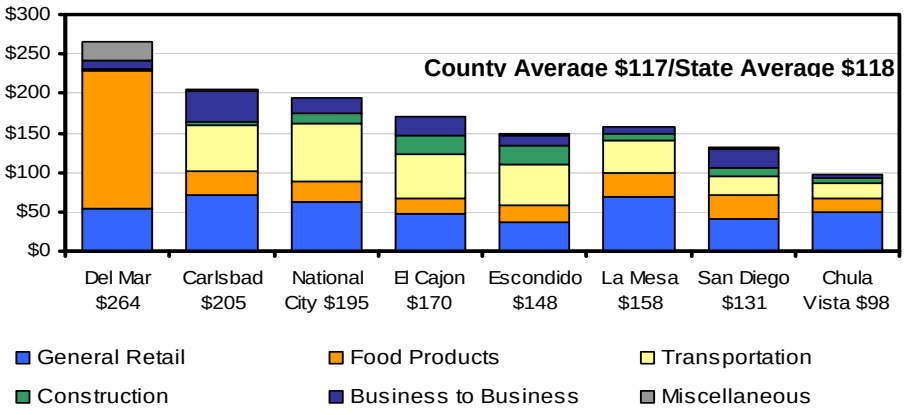
Sales tax revenue is highly sensitive to economic conditions, and reflects the factors that drive taxable sales, including the levels of unemployment, consumer confidence, per-capita income, and business investment. In addition, the proximity to the Mexican border and the number of transactions related 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 second largest discretionary revenue source, accounting for 18% of total revenue for the General Fund in fiscal year 2009-10. Due to the current economic recession consumer spending has decreased significantly nationwide; a decrease of 9.2% in sales tax revenue is projected for fiscal year 2009-10. Since fiscal year 2005-06 the City has experienced an increase of 0.1% in this revenue category when the recent declines are taken into account. Sales tax projections will continue to be conservative until it becomes apparent that the economy has recovered sufficiently to merit an increase in the forecast.

Fiscal Year	Actual 2008-09	Projected 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Sales Tax	$ 25,589,021	$ 23,244,508	$ 23,633,851	$ 24,106,528	$ 24,829,724	$ 25,574,616	$ 26,341,854
% Change	-9.6%	-9.2%	1.7%	2.0%	3.0%	3.0%	3.0%

As noted on the chart below, sales tax on a per capita basis for the City is only $98 compared to the County average of $117 and the State average of $118. This comparison indicates that the City's residents spend a high percentage of their retail dollars elsewhere, especially considering that a healthy share of our sales and use tax revenues are generated by cross-border shoppers. It seems clear that the City must continue to place a high priority on developing the retail business base by focusing on projects such as the expansion of the auto park and the Millenia Development (Eastern Urban Center) in order to ensure the City's long-term fiscal health.

Annual Sales Taxes Per Capita

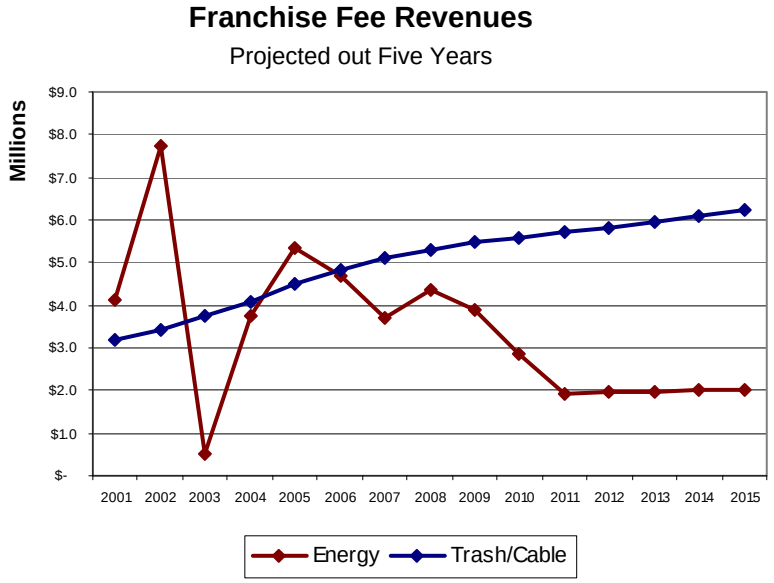


Source: MuniServices

Franchise Fees (Fiscal Year 2009 –10: $8.4 million 6% of General Fund revenues)

Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (9.05% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E is the single largest generator of franchise fees and accounts for approximately 35% of the total franchise revenues. SDG&E collects the franchise fee from Chula Vista customers and through a municipal surcharge imposed on the South Bay Power Plant based on their usage of natural gas. Due to the volatility of the price of natural gas and fluctuation in usage, this component is difficult to project. Trash franchise fees and cable fees are more predictable due to the fixed rates charged and the monthly and quarterly receipt of the revenues respectively. Revenue growth is projected based on population and inflation factors with the exception of the South Bay Power Plant which is impacted by the cost of natural gas and the actual usage of the plant itself.

The following chart reflects the drop in revenue in the current fiscal year due to the drop in natural gas prices and the reduced usage of the power plant overall. **In addition, the forecast does assume that the South Bay Power Plant is dismantled and is no longer generating franchise fee revenues after fiscal year 2010.**



Fiscal Year	Actual 2008-09	Projected 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Franchise Fees	$ 9,379,964	$ 8,446,505	$ 7,652,012	$ 7,794,686	$ 7,940,292	$ 8,088,893	$ 8,240,556
% Change	-2.9%	-10.0%	-9.4%	1.9%	1.9%	1.9%	1.9%

Motor Vehicle License Fee (VLF) (Fiscal Year 2009 –10: $17.7 million 14% of General Fund revenues)

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 0.65%. 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 the 0.65% 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 0.65% 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 adjusted by the jurisdiction's annual change in assessed valuation.

As a result in this change by the State, 97% of the City's VLF revenues now fluctuate along with assessed values. With the recent housing market crash, the VLF revenues dropped by 10% from fiscal year 2008-09 to fiscal year 2009-10 along with property tax revenues. Over the next five years, VLF revenues are forecasted to grow at very low levels reflecting the anticipated slow recovery of the housing market.

Fiscal Year	Actual 2009	Projected 2010	Forecast 2011	Forecast 2012	Forecast 2013	Forecast 2014	Forecast 2015
MVLF	$ 19,904,630	$ 17,716,642	$ 16,933,500	$ 17,272,170	$ 17,950,810	$ 18,656,364	$ 19,389,884
% Change	0.5%	-11.0%	-4.4%	2.0%	3.9%	3.9%	3.9%

Utility Users Tax (Fiscal Year 2009 –10: $9.4 million 7% of General Fund revenues)

The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecom at the rate of 5% of gross receipts, which represents 63% of the total UUT revenues received. The UUT on natural gas services is $0.00919 per therm and $0.00250 per kilowatt on electricity services, which equates to approximately a 1% tax.

Total UUT revenues received in fiscal year 2008-09 were $7.8 million, of which $2.5 million was from energy and $5.3 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's UUT ordinance (Chula Vista Municipal Code Chapter 3.44) is outdated as it applies to telecommunications usage and needs to be amended to reflect recent changes in Federal tax law and to modernize the definition of telecommunications so that it is technology neutral. The City will continue to monitor legislation which may require changes to the assumptions used in the forecast.

Fiscal Year	Actual 2008-09	Projected 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Utility Users	$ 7,848,557	$ 9,401,279	$ 8,755,835	$ 8,799,614	$ 8,843,612	$ 8,887,830	$ 8,932,269
% Change	6.4%	19.8%	-6.9%	0.5%	0.5%	0.5%	0.5%

Note: The drop in UUT in fiscal year 2010-11 is due to lost revenues related to the anticipated closure of the South Bay Power Plant and reduced vendor collections.

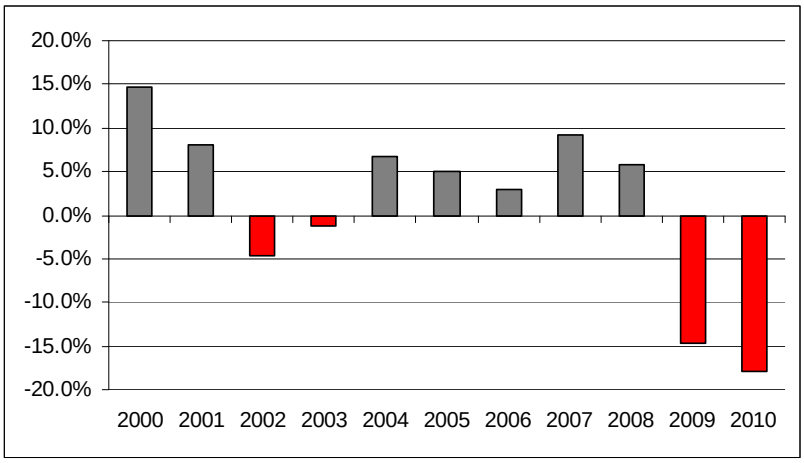
Transient Occupancy Tax (Fiscal Year 2009–10: $1.9 million 1.5% of General Fund revenues)

The City of Chula Vista imposes a Transient Occupancy Tax (TOT) upon all hotel stays within the City boundaries. The TOT tax rate in the City is 10%. The potential for significant revenue growth is feasible provided quality hotels are built in the City. Several potential new hotel developments are being proposed in the City primarily in the Millenia Project (Eastern Urban Center) and the Bayfront. Due to the uncertainty regarding the tourism market and with the objective of maintaining a conservative forecast, no additional TOT revenues are assumed related to these developments.

Fiscal Year	Actual 2008-09	Projected 2009-10	Forecast 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
TOT	$ 2,302,412	$ 1,940,930	$ 1,940,930	$ 1,979,749	$ 2,019,344	$ 2,059,730	$ 2,100,925
% Change	-14.6%	-15.7%	0.0%	2.0%	2.0%	2.0%	2.0%

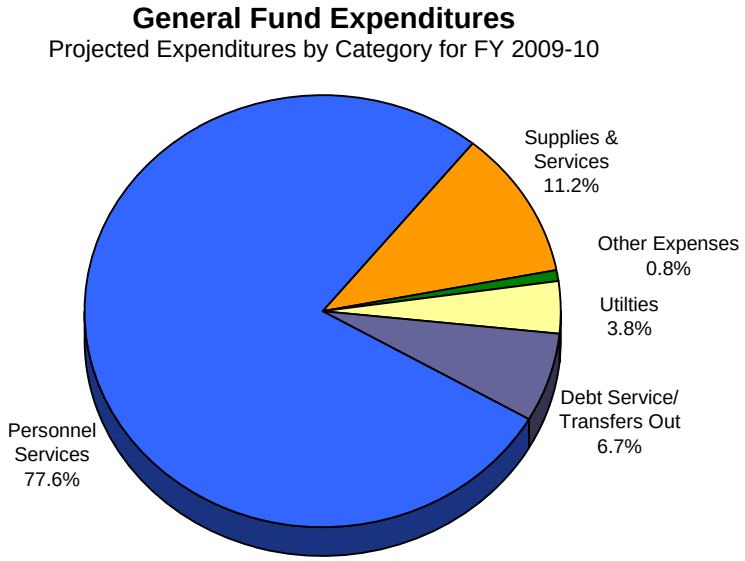
Note: Other than a 2% inflationary factor, no major increases in TOT revenues are anticipated throughout the forecast period.

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.


20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-15.0%
-20.0%
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
2010

CITY OF
CHULA VISTA

V. General Fund Expenditures



Personnel Services

Personnel expenditures (employee salaries and benefits) are by far the largest component of General Fund expenditures. At the beginning of fiscal year 2006-07, personnel services represented 81.4% of the overall general fund budget, compared to the current projected level of 77.6%. The percentage of personnel services expenses as a percentage of the overall operating budget have come down in each of the past three years due to a reduction of staffing citywide.

Personnel Service

The personnel category (not including health care premiums and retirement benefits) represents 59.5% of the General Fund budget. The personnel category is projected to increase by the negotiated salary increases (Union contracts) and anticipated increases in workers compensation. The current employee contracts are scheduled to expire on June 30, 2012 for CVEA, WCE and Mid Managers/Professionals and on June 30, 2013 for IAFF and POA. No salary increases are assumed for any employee beyond the current contracts. The forecast does assume that all vacant positions remain vacant throughout the forecast period. In addition, a 2% vacancy factor is assumed for attrition.

Position Counts (Full Time Equivalents)

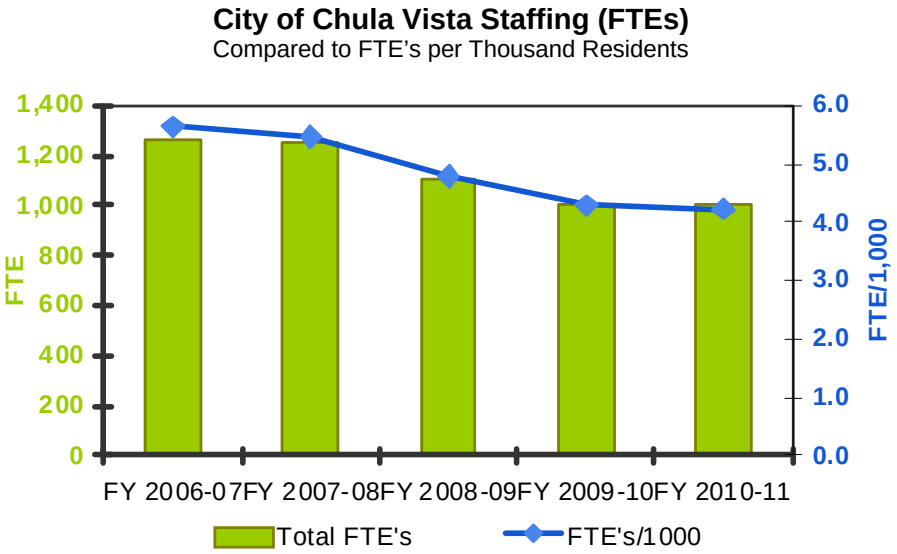
Despite the City's population growth over the past 5 years, the number of full time, benefited employees is 20.5% lower than it was during fiscal year 2006-07, which represents the peak for staffing levels. The following table summarizes the staffing changes by service category from fiscal year 2006-07 to fiscal year 2010-11 for all funds. During this period, positions have been eliminated throughout the City as reflected in the table below.

Staffing Level (All Funds) FY 2006-07 to FY 2010-11

Council Adopted Budget	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 07 – FY 11
Legislative and Administrative	144.50	140.00	128.50	100.50	104.75	-39.75
Development and Maintenance	472.75	458.25	398.25	357.75	351.75	-121.00
Public Safety	532.50	540.50	493.50	480.50	482.50	-50.00
Community Services	114.00	109.75	89.25	66.25	65.75	-48.25
***Total City Staff**	**1263.75**	**1248.50**	**1109.50**	**1005.00**	**1004.75**	**-259.00**

**Based on the fiscal year 2009-10 budget there are 869.5 full time equivalent positions approved in the General Fund (not including hourly employees). The fiscal year 2010-11 City Manager proposed budget includes additional reductions further reducing positions in the General Fund to 864.25 full time equivalents.*

Due to budget constraints experienced over the past three years the City has eliminated a total of 259.0 full time equivalent positions from the City's high employment mark of 1,263.75 FTEs during fiscal year 2006-07. Due to these cuts, the FTE per thousand residents has decreased from 5.6 employees per thousand residents in fiscal year 2006-07 to an estimated 4.2 employees per thousand residents in fiscal year 2010-11. From January 2006 to January 2010, the City has seen an increase of 2,851 housing units and 13,589 residents (6.1% increase). City parkland currently totals 278 acres with an additional 19 acres to be added during fiscal year 2010-11. Between fiscal years 2006-07 and 2008-09, the City added 18 miles of streets (4.4% increase) and 12 miles of sewer lines (2.5% increase).



Negotiated MOUs

As demonstrated below, employee costs have increased significantly during the past several years as the City has sought to maintain a competitive position in the local labor market. Existing Memorandums of Understanding (MOU) agreements with the City's various employee bargaining groups originally called for pay increases of 4% per year for the next two years for most employees; however, due to the current budget crisis, Police and Fire have agreed to defer their increases as shown in the following chart and all other employees (CVEA[1], WCE, CONF, PROF[2], Mid Manager[2], Senior Managers and Executives) have given up their raises. From fiscal year 2005-06 through fiscal year 2012-13, compounded salary increases per the negotiated MOU agreements total 27.5% for members of the Chula Vista Police Officers' Association (POA), 26.5% for members of International Association of Firefighters (IAFF), 10.3% for the Chula Vista Employee Association (CVEA), Western Conference of Engineers (WCE) and Confidential Employees (CONF) and 6.1% for Professional (PROF), Management and Executive employees.

Summary of MOU Salary Increase by Bargaining Group

Date of Salary Increase	POA	IAFF	CVEA[1]	WCE & CONF	PROF & MM [2]	SM & EXEC
January 2006	10%	8%	3%	3%	3%	3%
January 2007	4%	2%	3%	3%	3%	3%
July 2007	0%	2%	0%	0%	0%	0%
January 2008	4%	4%	4%	4%	0%	0%
January 2009	0%	0%	0%	0%	0%	0%
July 2009	0%	-1%	0%	0%	0%	0%
January 2010	0%	0%	0%	0%	0%	0%
July 2010	1%	0%	0%	0%	0%	0%
January 2011	1%	2%	0%-4%	0%	0%	0%
July 2011 [3]	1%	2.5%	0%	0%	0%	0%
January 2012	1.5%	1.5%	0%-4%	0%	0%	0%
July 2012	1.5%	1.5%	(4)	(4)	(4)	(4)
January 2013	1.0%	1.5%	(4)	(4)	(4)	(4)
Compound Increase Jan 2006 - Jan 2013	**27.5%**	**26.5%**	**See Note (1)**	**10.3%**	**6.1%**	**6.1%**
Average Increase per Year	**3.4%**	**3.3%**	**See Note (1)**	**1.3%**	**0.8%**	**0.8%**

1. CVEA employees could receive increases up to 4% in Jan 2011 and Jan 2012 based on a benchmark market study. Any increase will vary depending on the final negotiated terms.
2. Professional and Mid Manager's salary is subject to reopener and subsequent meet and confer.
3. July 2011 IAFF adjustment reflects 1.5% salary increase per Side Letter of Agreement dated February 9, 2009 reinstatement of 1% salary reduction implemented in July 2009 per Side Letter of Agreement dated June 16, 2009.
4. Past date of existing contracts.

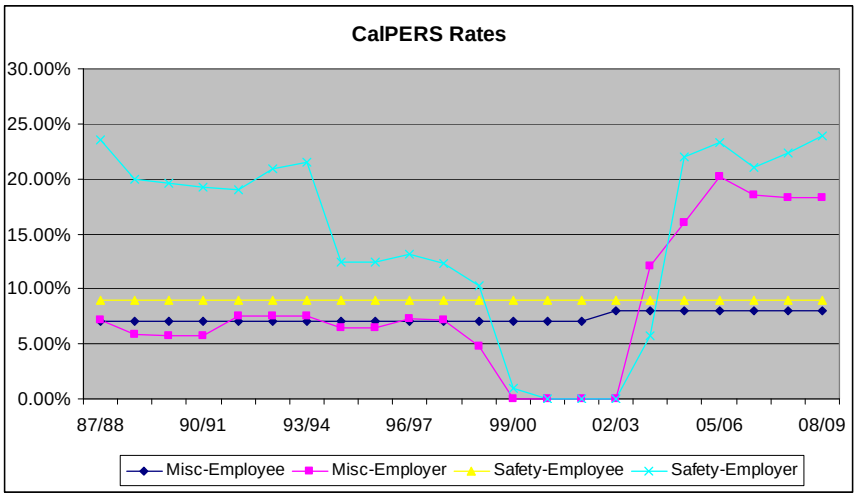
California Public Employees Retirement System (CalPERS)

The increase in retirement costs is a significant budgetary challenge facing all governmental entities. The two key factors driving the increased costs over the past few years have been the significant investment losses experienced by CalPERs and enhanced benefits during the same time period. Currently, the payments made to the retirement system equal 15.3% of the City's total General Fund. The CalPERS expenditure category includes both the employer contribution and the city-paid employee contribution.

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 budgetary impacts caused by the increased pension contribution rates have been significant. The City's PERS contribution rates (combined employer and employee rates) have increased from 19.3% for safety employees and 11.7% for miscellaneous employees in fiscal year 1998-99 to 34.5 % and 29.8% respectively in fiscal year 2010-11. This translates into an increase of $18.7 million in budgeted PERS contributions – from $5.3 million in fiscal year 1998-99 to $24.0 million in fiscal year 2009-10 for all funds combined. The majority of this increase is related directly to the CalPERS investment losses during fiscal years 2001, 2002 and 2003. In addition, the City implemented enhanced pension benefits moving to a 3% @ 50 program for public safety in 2002 (Fire) and 2003 (Police) and 3% at 60 for the miscellaneous group in 2002.

Changes in City Retirement Contribution Rates



Notes on Chart

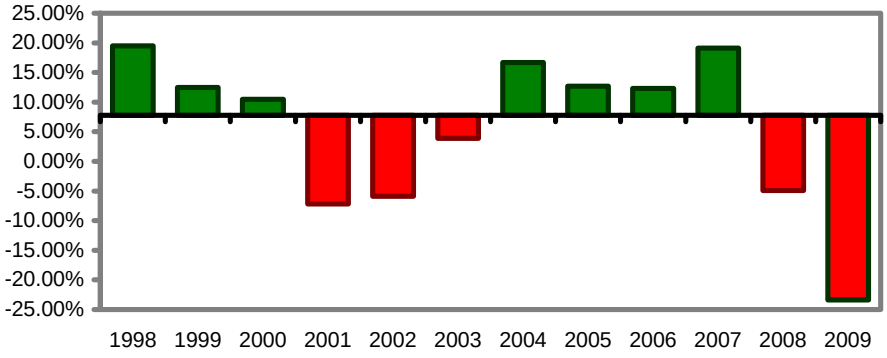
1. Misc. Employee – the 8% employee share is paid by the City as negotiated with individual employee bargaining group.
2. Safety Employee – the 9% employee share was paid by the employee from 87/88 through 93/94. In 94/95 both police and fire paid 7% and the City paid 2%. In 95/96 police and fire paid 7% and 4% respectively with the City picking up 2% and 5% respectively as negotiated. For 96/97 and 97/98 police paid 7% and the City paid 2% and the City paid the entire 9% for fire. From 98/99 forward the City has paid the entire 9% as negotiated with Police and Fire.
3. 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 20.02% and 14.78% respectively in fiscal year 2003-04.

Prior to fiscal year 2005-06, the CalPERS investment pool assumed a rate of return of 8.25% and any market gains (or losses) less than that amount could significantly affect the City's overall contribution rate. In fiscal year 2005-06, CalPERS adjusted their investment return assumption to 7.75% and have adopted an asset smoothing method whereby any losses are spread out over a 15 year period to reduce the City's exposure to market volatility. With the substantial losses in the investment market in 2008 and 2009, the impact on funded status and the contribution rates that employers will have to pay in the future will be significant ranging from 2% to 4% of payroll. In an attempt to smooth out the impacts of the additional investment

losses, CalPERS has modified it's smoothing method resulting in minimal impacts to the contribution rates in the next three fiscal years but increasing thereafter.

CalPERS Historical Market Value Rates of Return

Relative to Assumed Investment Return of 7.75%



Source: CalPERS Facts at a Glance. Investment returns as of June 30.

The following table reflects the actual and forecasted employer contribution rates used to project retirement benefit costs. The actual rates were provided by CalPERS and the forecasted rates were provided by the City's CalPERS consultant Bartel & Associates. The rates have been adjusted to include anticipated increases in contribution rates related to the early retirement program approved by the City Council as part of the Budget Reduction Plan.

Employer CalPERS Contribution Rates

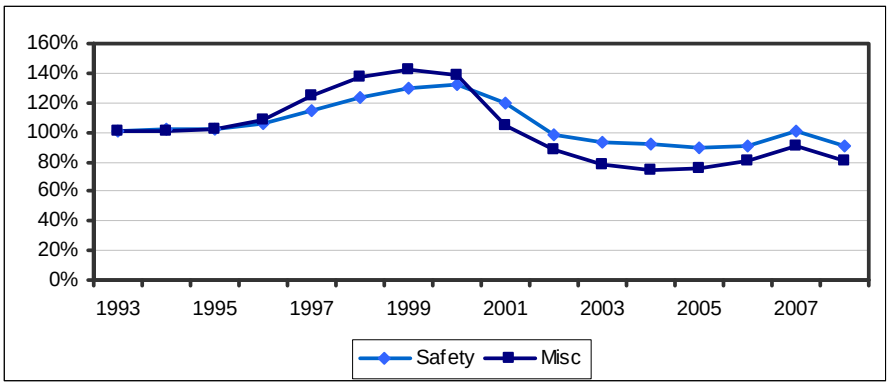
Employee Group	Actual 2008-09	Actual 2009-10	[1]Actual 2010-11	Forecast 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15
Public Safety	23.9%	23.2%	22.7%	23.4%	24.0%	29.8%	32.0%
Miscellaneous	18.3%	18.2%	19.6%	20.1%	20.5%	24.9%	26.5%

1. CalPERS provided the 2010-11 employer contribution rates and are included in the base budget. Rates for 2012 – 2015 are projected by Bartel & Associates and adjusted for the Early Retirement Program.
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.
3. Employee contribution rates of 8% and 9% for Miscellaneous and Public Safety respectively are not included in the table above.
4. Projected contribution rates reflect significant increase in fiscal year 2013-14 due to investment losses experienced by CalPERS during 2008 and 2009.

Funded Status

The funded status of a plan is a measure of how well it is funded or "on track" with respect to assets vs. accrued liabilities. Based on the Annual Valuation Report issued on October 2009, the funded status for the Public Safety Group and Miscellaneous Group combined was 86% based on market value as of June 30, 2008. This is based upon an unfunded liability as of June 30, 2008 of $62.6 million for Miscellaneous employees and $28.8 million for Public Safety employees. As discussed previously, with the significant investment losses over the past two years, the funded status for the City will significantly drop once the losses are factored in.

Funded Status



Source: CalPERS Actuarial Valuation Report as of June 30

Health Care Cost

Kaiser and PacifiCare/AETNA insurance premiums have increased an average of 9% per year since the beginning of fiscal year 2004-05. Taking into account the compounding effect of these increases over time, Kaiser premiums have increased 54.8% during this time while PacifiCare/AETNA[1] premiums have increased 51.3% over the same period. The annual budget for flexible spending accounts has increased from $8.5 million in fiscal year 2004-05 to $10.0 million in fiscal year 2010-11 in the General Fund. Recent discussions with health care professionals indicate these high trends in health care costs are likely to continue for the foreseeable future, with an anticipated increase of 10% effective January 2011. The anticipated increase in health care costs is included in the fiscal year 2010-11 proposed budget. Included in the forecast are assumptions that premiums will continue to increase at an average rate of 10% per year.

Premium Increases by Health Care Provider
(FY 2004-05 to FY 2009-10)

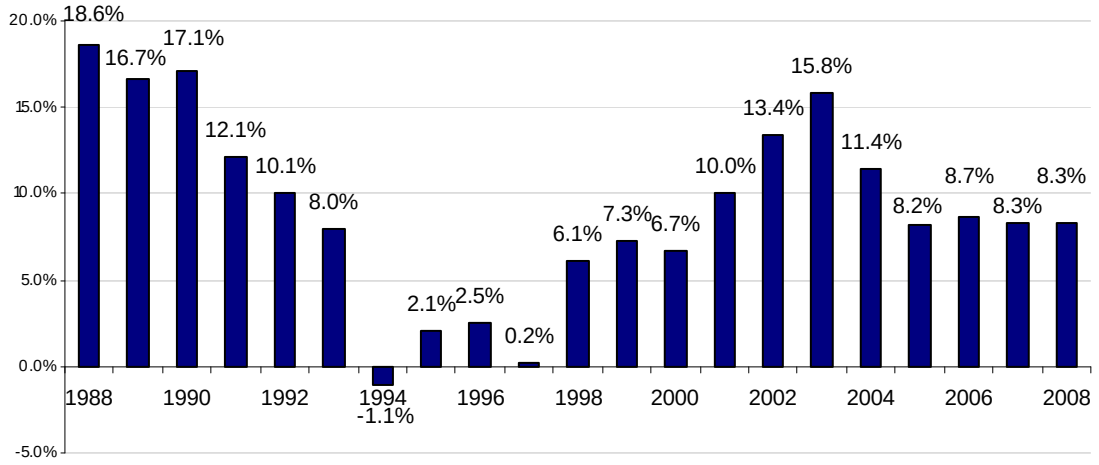
Date of Premium Increase	Kaiser	PacifiCare/ AETNA [1]	Average
January 2005	19.9%	8.4%	14.2%
January 2006	6.9%	10.0%	8.5%
January 2007	8.5%	16.4%	12.5%
January 2008	5.0%	-2.8%	1.1%
January 2009	8.9%	4.0%	6.5%
January 2010	5.6%	15.3%	10.4%
Annual Avg Premium Increase	9.1%	8.6%	8.9%

[1] Effective January 2009, the City switched from PacifiCare to AETNA

Increasing Health Care Costs

Average of 9.15%/Year Since 1998

Average Medical Plan Premium Increases for California Employers



Source: California Health Care Foundation.

Other Post Employment Benefits (OPEB)

Beginning in fiscal year 2007-08, in accordance with Governmental Accounting Standards Board Pronouncement (GASB) 45, governmental entities were 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.

The City of Chula Vista does not directly pay for post employment health benefits but does subsidize the health care insurance premiums paid by retirees who opt to continue to participate in the City's retiree health care program. The costs associated with the retirees are pooled with the active members; this pooling creates an artificially low rate for retirees. GASB believes that retirees who are allowed to pay the same health care benefit rate as active employees are being subsidized and the indirect cost of this "implicit subsidy" needs to be recognized as an OPEB liability by the governmental entity.[4] In summary, the City is paying a higher insurance premium due to the subsidized rates for retirees and accruing an unfunded liability for subsidized health benefits being earned by current employees and existing retirees.

As a result of GASB 45, the City underwent an actuarial study which calculated its estimated unfunded retiree medical liability at $9.6 million. This is the same accounting and financial reporting requirement used for pension benefits which require that the cost of benefits be recognized as a liability as benefits are earned. This liability is reflected in the City's financial statements for the year ending June 30, 2009. Management is currently exploring strategies to address this unfunded liability from a long-term financial perspective.

Debt Service

Over the past few years the City issued debt used to fund several major capital projects such as the public works yard, the 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 Fund.

The General Fund's annual debt service "commitment" is projected to be approximately $11.7 million, or approximately 8.7% of the projected General Fund operating budget for fiscal year 2009-10.

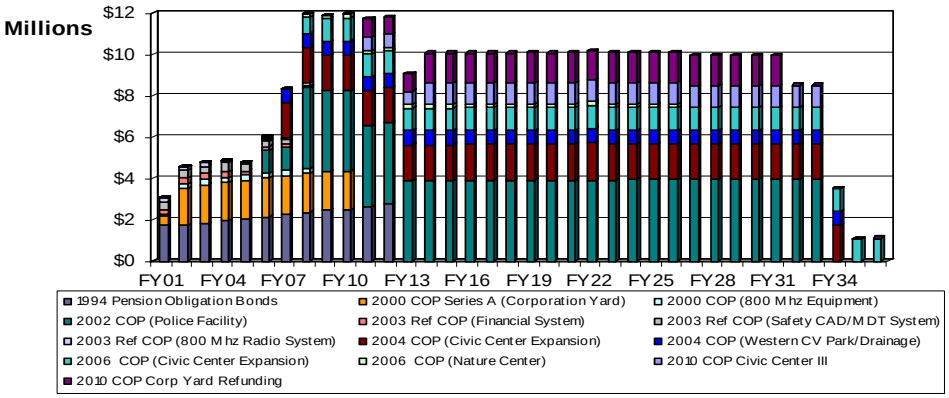
Major Facility Financing – Debt Service Obligation

	Original Issuance	*Outstanding Balance	Term	Interest Rate	Scheduled Payment FY 2010-11
1994 Pension Obligation Bonds	$16,786,532	$7,000,000	18 years	8.45%	$2,635,172
2002 COP - Police Facility	$60,145,000	$55,420,000	30 years	4.93%	$3,908,146
2004 COP - Civic Center Phase I	$26,692,417	$24,990,094	30 years	4.65%	$1,713,947
2004 COP- Infrastructure Improvements	$10,547,583	$9,874,906	30 years	4.65%	$677,271
2006 COP - Civic Center Phase II	$18,155,000	$17,440,000	30 years	4.32%	$1,106,185
2006 COP- Nature Center	$2,170,000	$2,000,000	20 years	4.32%	$165,204
2010 COP - Civic Center Phase III	$12,835,000	$12,835,000	30 years	5.51%	$663,990
2010 COP Corporation Yard - Refunded	$16,520,000	$16,520,000	30 years	5.51%	$841,940
Total	$163,851,532	$146,080,000			$11,711,854

Outstanding Balance as of June 30, 2009 Audited Financial Statements

[4] Government Finance Review – August 2006

Aggregate Annual Debt Service Payments – General Fund



Note: The final debt service payment for the 1994 Pension Obligation Bonds is scheduled for fiscal year 2011-12.

Debt Service payments per bond issuance are level. The chart reflects high and low points in overall debt payments due to new bond issuances being added and debt expiring overtime at different points.

VI. Infrastructure Summary

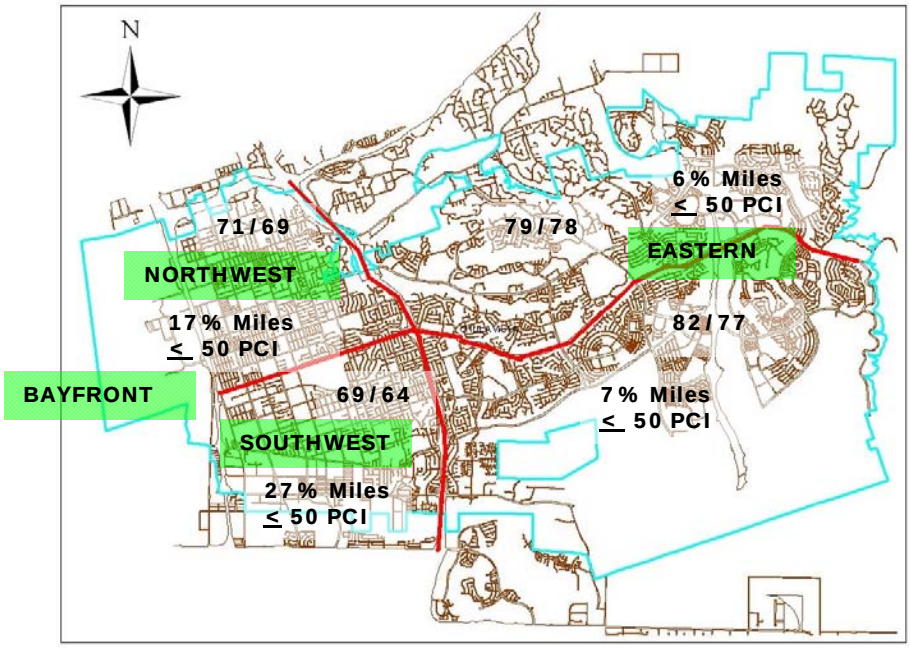
Most of the available capital funding is dedicated to ongoing infrastructure rehabilitation projects. These include streets, sidewalks and sewers. In particular, street-related rehabilitation projects are predominant in this program. These projects occur on a citywide basis and are part of a comprehensive process that the City performs every year to assess the most cost efficient manner to preserve and rehabilitate the City's infrastructure.

As a result of dedicated funding streams, the City continues to make progress with the preservation of two major assets – wastewater and pavement. The Wastewater Enterprise Fund structure has ensured that adequate funding is available to proactively address wastewater asset lifecycles. Over 50% of the Capital budget revenue is dedicated to local and major street rehabilitation projects; however this investments falls short of the total amount needed to improve the condition of the streets in western Chula Vista and maintain a favorable pavement condition index in the east as the City ages. Significant challenges continue to face the City due to deteriorating infrastructure that has exceeded its total life cycle. The most challenging unfunded asset to manage continues to be storm drains; the City continues to experience the failure of several storm drains with corrugated metal pipe (CMP) annually. These are currently addressed on an emergency basis due to the lack of funding. Also of paramount importance is the lack of available funding to maintain City-owned facilities such as libraries, fire stations, recreation centers and historic buildings such as the Women's Club.

Pavement

The City utilizes a comprehensive pavement management system, which forms the basis for the development of current and future pavement rehabilitation projects. Since completion of the citywide pavement inspection and presentation of a Council workshop on pavement management in FY 2006-07, the City has completed and begun construction on several contracts involving pavement preservation/ rehabilitation. This includes pavement management and preservation/ rehabilitation of approximately 355.114 lane miles of pavement at a total project cost of approximately $15,129,200 as of December 4, 2009. The Pavement Condition Index (PCI) is currently at 73 (Good Condition) in comparison to 75 in 2007. Staff anticipates the PCI will increase slightly in the next reporting period due to the number of pavement projects currently underway.

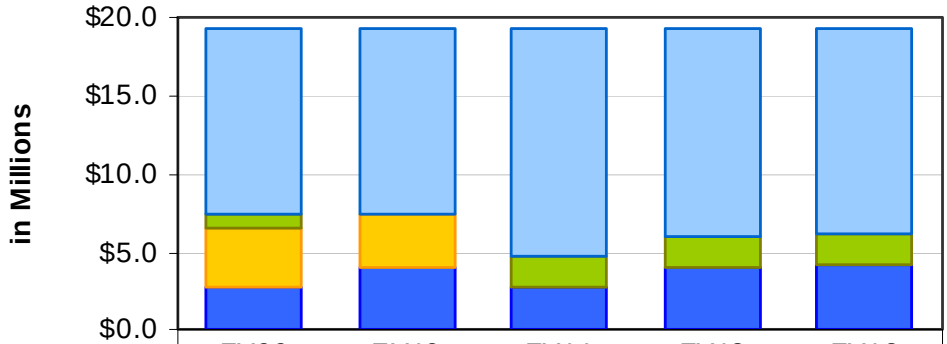
The following PCI Map shows the average 2006 and 2010 PCI by area:



Council adopted Resolution 2007-080 on April 5, 2007, reaffirming Council's commitment to the implementation of a Pavement Management System which emphasizes maintenance efforts to preserve good pavement in contrast to a "worst first" strategy, which focuses on streets that require expensive treatments such as reconstruction. Several pavement preservation/rehabilitation projects are currently underway and will be completed in FY 2011.

The 2011 Proposed CIP includes funding inspection of all the City's public streets in the five year Capital Improvement Programs. These efforts should help to establish the effectiveness of the City's pavement rehabilitation efforts and the amount of deterioration of untreated streets. These streets include all the City's arterials and collectors, a selection of streets that were rehabilitated since the last inspection (primarily in 2006), and a random selection of residential streets.

Also in the April 2007 Workshop, the City's consultant presented a graph that estimated the amount of funds it would take to eliminate the City's pavement preservation backlog. The estimated amount was $19.2 million per year over a 10-year period. Although the City had a large TransNet fund reserve to use for its pavement program over the past few years, there is a significant gap between the annual available pavement preservation revenue and the amount needed per year. The graph shows the revenue gap from FY 2009 through FY 2013. Limited duration funding, such as Proposition 1B and the ARRA Swap, were received during Fiscal Years 2009 and 2010. Total TransNet funds were less than anticipated during these years, and this trend may extend into the future. If the State borrows from regular funding sources, such as the Gas Tax, there will be more competition for limited TransNet funds.



	FY09	FY10	FY11	FY12	FY13
Gap	$11.7	$11.7	$14.4	$13.2	$13.0
Prop 42	$1.0	$0.0	$2.0	$2.0	$2.0
Prop 1B	$3.7	$3.4	$0.0	$0.0	$0.0
TransNet*	$2.8	$4.1	$2.8	$4.0	$4.2

With regard to other street rehabilitation efforts, the City continues to focus significant attention and resources on street improvements in western Chula Vista. A number of projects have been undertaken in the past several years, including over $12 million of street rehabilitation projects, as well as significant sidewalk improvements. That effort will continue and will also include the formation of additional assessment districts on a number of streets in the Castle Park neighborhood.

Sewer/Strom Drains

The City continues to focus on its Annual Sewer Rehabilitation Program, which expends approximately $1 million to $2 million annually for the replacement and rehabilitation of sewer pipes and manholes. The City also utilizes standardized evaluation and ranking criteria in televising and evaluating the condition of sewers in order to assure that the most critically impacted sewer infrastructure is replaced or rehabilitated first.

Over the last several years the City has evaluated the condition of its storm drain facilities, which includes approximately 88,000 lineal feet of corrugated metal pipe (CMP) storm drain within the City limits. CMP storm drains have not been allowed for permanent use in the City of Chula Vista for over 20 years due to more rapid deterioration than other types of pipes, such as plastic and reinforced concrete pipes. The deteriorating CMP storm drains were categorized as Priorities 1 through 5, as follows:

Priority	Time Replacement/Rehabilitation Needed (Year)	Lineal Feet of CMP
1	Immediately (2005)	2,342 ft
2	Within one year (2006)	24,293 ft
3	Within three years (2008)	13,207 ft
4	Within five years (2010)	4,269 ft
5	Inspect in five years (2010)	22,984 ft

Much of the CMP identified as Priority 1 has been rehabilitated. However, due to limited funding, priorities 2 through 5 are being addressed on an as-needed basis, either after failure has occurred or when failure is imminent. The CIP Program seeks to find dedicated funding for this critical program; however, due to eligibility limitations and availability of such funds, it has been increasingly difficult to fund CMP replacement and rehabilitation work. A total of $1.2 million in TransNet monies was previously appropriated in FY 2009-10, which has funded approximately $600,000 in emergency drainage projects. The remaining funds will be used to address other storm drain failures until those funds are depleted.

Other Infrastructure

A substantial amount of the funding is focused on infrastructure improvements in the western portion of the City and preservation of infrastructure citywide. Over the past few years, City staff has presented a number of reports to the City Council with regard to the condition and capacity of existing infrastructure (i.e., pavement, corrugated metal pipe, storm drains, sewers, roadways, etc.) citywide, as well as the lack of sidewalks and other public improvements primarily within the western portion of the City, especially within the Montgomery Annexation area. Adequate funding is currently not available to build new infrastructure and maintain existing infrastructure.

With the adoption of the FY 2004-05 budget, the City Council approved a financing plan for infrastructure improvements in western Chula Vista. This financing plan revolved around a two-pronged financing program. One element of the program was a $9 million bond issue that would be repaid from the City's Residential Construction Tax (RCT) revenues over a period of 30 years. That financing was completed in late summer of 2004. This portion of the financing was earmarked for drainage and park improvements. With the receipt of those funds, work has been completed on a number of drainage projects in western Chula Vista. A total of $4.7 million of the financing was dedicated to drainage improvements. The balance of these funds was utilized to construct Harborside Park ($2.1 million), Otay Park renovations ($1.9 million) and improvements to Lauderbach Park ($.6 million).

The second portion of the financing is a $9.5 million loan through the U.S. Department of Housing and Urban Development's (HUD) Section 108 loan program. The loan will be repaid through the City's annual Community Development Block Grant (CDBG) entitlement from HUD and will be paid back over a period of ten years. The Section 108 loan is earmarked for street improvements in the Castle Park area. The City formally submitted its application for the loan in May of 2006 and the loan was approved in FY 2006-07. The loan funds became available to the City in June of 2008. With the approval of the loan, work has commenced on the projects. The City Council directed that the main streets in the neighborhood proceed first. Construction of First Avenue, between Naples Street and Palomar Street, and Glenhaven Way/Amy Street is complete and a number of street improvement projects are moving forward, including work on Oxford Street (Third Avenue to Alpine

Avenue), Second Avenue (Naples Street to Palomar Street) and Naples Street (Third Avenue to Alpine). Future locations include Elm Ave (Naples Street to Oxford Street). Once these projects on the main streets in the neighborhood are completed, remaining funds will be utilized on streets within the Castle Park neighborhood.

Also included in the 2011 budget is funding for new ADA accessible curb ramps ($332,695), Traffic Signal Modification and Installations, Traffic Count Station and Maintenance, System Optimization and Safety Improvement Program ($1.6 million), and Sewer rehabilitation improvements, pump station rehabilitation and capacity enhancements ($3.2 million). The City was also the recipient of Highway Safety Improvement Program (HSIP) and SAFETEA-LU funds. The HSIP will fund Sidewalk Installation and Traffic Signal Modification at Fourth and G ($0.5 million). The SAFETEA-LU funding will fund the Gunpowder Point Road Overlay – Access ($0.5 million).

City Facilities

While this focus on public right of way infrastructure continues, the City has also engaged in a program for the construction of several facilities in recent years. Since 2002, the City has undertaken over $100 million of renovations to the Civic Center Complex, various recreational and fire facilities and new fire, park and recreation facility construction. Mt. San Miguel Community Park is nearing completion and All Seasons Park is currently in construction. Over 160 acres of new parkland and 58,000 square feet of new recreation center space will have been added between 2002 and the end of FY 2009-10. The funding sources for these projects included Development Impact Fees (DIF), Residential Construction Tax (RCT), Redevelopment Funds (RDA), Park Acquisition Development fees, grants and the General Fund. Funds for any other city facilities are not anticipated for several years out. As such, while the design of the Rancho Del Rey Library is complete, Public Facilities Development Impact Fees (PFDIF) are not projected to be sufficient to support construction in the next 5-years.

Included in the Millenia development is a proposed Fire Station, which will need to be addressed in the near future. The City has negotiated a development agreement for interim funding related to the operating costs of the Millenia fire station. Fire Stations 1 and 5 are also need of replacement however; there are no funds available for new construction or renovation. The Fire Department applied for ARRA funding to address the replacement of Fire Station 5, which met the eligibility criteria outlined in the ARRA guidelines. Unfortunately the City has received notice that the Fire Station will not receive funding at this time.

Bayfront Capital Improvement Projects such as a sewer lift station, fire station and park improvements will also need to be programmed in future years. These projects are proposed to be supported by Bayfront development and the Western Transportation Development Impact Fee (WTDIF). The WTDIF was established in 2008 and covers the Bayfront, Northwest and Southwest areas of Chula Vista. This $52 million program will help finance over 60 transportation projects

such as the ultimate improvements for Interstate-5 interchanges, major arterial roadways, light rail trolley improvements and needed bicycle, pedestrian and traffic signal projects within the benefit area. The WTDIF is anticipated to be updated in FY 2010-11 to incorporate the approved Bayfront land use changes.

The only proposed facility related funding for new construction in the FY 2010-11 program is $840,000 in partial funding for the Orange Avenue Library Park site from repayment from the Redevelopment Agency to the General Fund as well as funding from SDG&E. The new multi-purpose park is proposed to be located behind the South Chula Vista Library. The total estimated cost for this project is $2.5 million of which $840,000 has been identified at this time. Staff has submitted a Statewide Park Grant application for construction of this park. In May 2010, the City was notified that the grant application has met eligibility requirements and will proceed to the second review process. Grant awards are anticipated to occur in October of this year. Staff will return to Council with a project funding status as soon as the City receives notification from the State. Should the grant not be awarded, staff's report will include alternatives for funding and construction of this park.

Additionally, there is no minor CIP budget for facility repairs. In the past the minor CIP was appropriated $100,000 annually from the General Fund. However, due to fiscal constraints facility repairs remain unfunded with the exception of the roof repair at South Chula Vista Library ($160,000) and renovations at Lauderbach facility and park site, which are included in the proposed FY2011 CIP.

Other work on City facilities has been limited to the City's energy conservation effort in partnership with SDG&E and loans from the California Energy Commission (CEC). Several projects have been completed such as the Police Department Variable Speed Retrofit, Loma Verde Pool Solar covers, and Phase I Lighting Retrofit. In addition, several projects are currently underway including but not limited to the Municipal Solar Photovoltaic Systems and the Citywide Energy Lighting Retrofit (Phase 2). The FY 2010-11 CIP includes $2 million for Induction Lighting funded by a loan from the American Recovery Reinvestment Act (ARRA). The Residential Street Light project will conserve energy and significantly reduce maintenance costs.

Undergrounding Districts

Bayfront utilities were recently undergrounded utilizing 20A funds which are allocated by SDG&E to help pay for the undergrounding of existing utilities. There are currently two undergrounding projects underway: Fourth Avenue from L Street to Orange Avenue and East L Street from Monserate Avenue to Nacion Avenue. The Fourth Avenue project is approximately $6 million and is expected to be finalized in FY 2010-11. The East L Street project is approximately $3 million and as part of the project will replace and upgrade the overhead flashing warning beacons at the top of the East L Street hill. No other undergrounding projects are scheduled due to lack of funds.

In an effort to contain undergrounding construction costs, the City of Chula Vista as well as several other local agencies have formed a Utility Undergrounding District subcommittee to meet and discuss policies and various other methods for controlling underground utility district costs so that additional conversion districts can be funded in the future. Future conversion districts may be established and constructed differently than how we have done previous districts.

CITY OF
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VII. 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 included projections for the current fiscal year 2009-10 and forecasts for fiscal years 2010-11 to 2014-15.

CA Redevelopment Agency

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 increment 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.

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.

RDA Outstanding Bonded Indebtedness

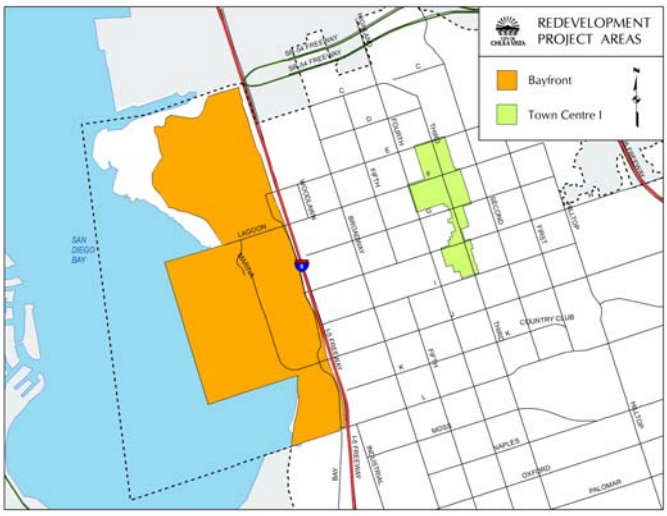
	Original Issuance	*Outstanding Balance	Term	Interest Rate	Scheduled Payment FY 2010-11
2003 COP - Parking Structure	11,320,000	4,145,000	10 years	2.67%	1,049,880
2005 - ERAF (State Takeaway)	765,000	505,000	10 years	4.88%	102,118
2006 - ERAF (State Takeaway)	930,000	710,000	10 years	5.87%	125,996
2006 TAB Refunding Series A	13,435,000	12,580,000	20 years	4.58%	1,027,945
2006 TAB Refunding Series B	12,325,000	11,625,000	20 years	5.34%	1,000,434
2008 TAB Refunding	21,625,000	21,625,000	28 years	4.75%	963,636
Total	60,400,000	51,190,000			4,270,009

Outstanding Balance as of June 30, 2009 Audited Financial Statements

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



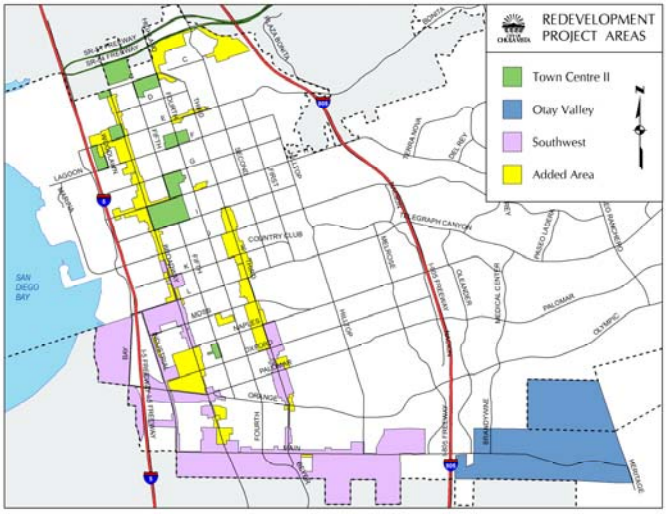
Following its creation in 1972, the Agency's initial focus and resources were dedicated to the City's waterfront and the historic downtown Third Avenue business corridor. On July 16, 1974, pursuant to Ordinance 1541, the City adopted the Bayfront Original Project Area, which encompassed approximately 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. On 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 $2.9 million in fiscal year 2009-10 to $3.3 million in fiscal year 2014-15. 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.

RDA Revenues/Expenditures (FY 2008-09 to FY 2014-15)

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 2014-15

respectively to fund necessary administrative activities, projects/programs and loan repayments to the general fund.

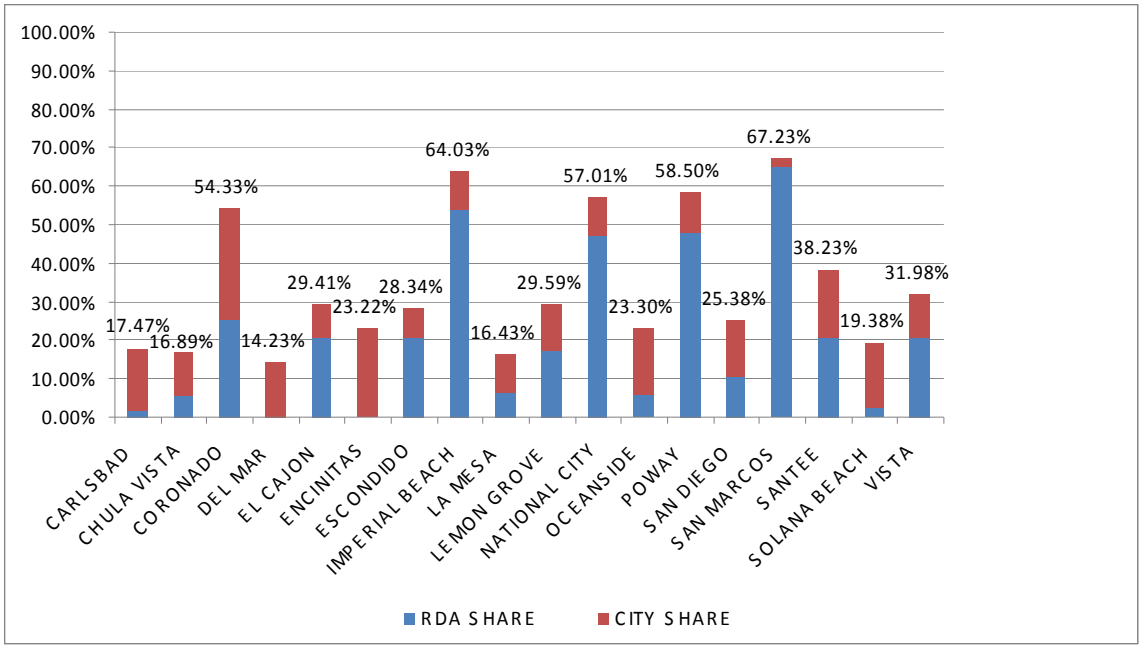
The following tax increment revenue projections are based on current assessed values in the project areas and an annual growth rate of two percent for those values. They do not account for future redevelopment projects which may significantly increase tax increment generation in the project areas.

Redevelopment Agency 5 Year Financial Forecast

Combined Project Areas	FY 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
Bayfront	2,072,623	2,114,075	2,156,356	2,199,484	2,243,473
Town Centre I	2,655,095	2,708,197	2,762,361	2,817,608	2,873,960
Otay Valley	2,421,242	2,469,667	2,519,060	2,569,441	2,620,830
Town Centre II	1,602,296	1,634,342	1,667,029	1,700,369	1,734,377
Southwest	3,619,247	3,691,632	3,765,465	3,840,774	3,917,590
Added Area	2,133,316	2,175,983	2,219,502	2,263,892	2,309,170
Interest Earnings	15,000	15,000	15,000	15,000	15,000
Tax Increment Revenue & Interest Earnings	**$ 14,518,819**	**$ 14,808,896**	**$ 15,104,774**	**$ 15,406,569**	**$ 15,714,400**
Expenditures					
Statutory & Negotiated Obligations					
Low and Moderate	2,900,764	2,958,779	3,017,955	3,078,314	3,139,880
AB1290 Passthrough	1,277,870	1,303,427	1,329,496	1,356,086	1,383,208
Southwest Passthrough	1,400,437	1,428,446	1,457,015	1,486,155	1,515,878
Goodrich Relocation	84,061	362,745	341,002	318,824	250,000
LT Adv DSF (Payment to Gen Fund)	1,500,000	-	-	-	-
2003 COP	1,049,880	1,046,273	1,054,438	223,850	-
2005 ERAF	102,118	98,354	99,526	100,356	100,880
2006 ERAF	125,996	126,052	125,784	125,188	129,282
2006 TAB	2,019,029	2,018,929	2,015,229	2,013,066	2,013,241
2008 TAB	968,636	968,636	968,636	968,636	1,532,136
ERAF (Repymt to Low & Mod)	-	519,591	1,512,379	1,512,379	1,512,379
Smiser Prop Tax Rebate	35,000	35,000	35,000	35,000	35,000
Debt Service	5,800,659	4,812,834	5,810,991	4,978,475	5,322,918
Agency Personnel Costs	708,167	708,167	708,167	708,167	708,167
Total Obligations and Debt Service	**12,171,958**	**11,574,399**	**12,664,626**	**11,926,021**	**12,320,051**
Available Resources	**$ 2,346,861**	**$ 3,234,497**	**$ 2,440,148**	**$ 3,480,548**	**$ 3,394,350**
Other S&S, Prof & Consulting Fees	673,500	673,500	300,000	300,000	300,000
City staff	550,000	550,000	550,000	550,000	550,000
CIP	1,123,000	-	-	-	-
Non-CIP (Payment to Gen Fund)	-	-	-	-	-
Project Costs	**2,346,500**	**1,223,500**	**850,000**	**850,000**	**850,000**
Surplus/(Deficit)	**$ 361**	**$ 2,010,997**	**$ 1,590,148**	**$ 2,630,548**	**$ 2,544,350**

Note: The surplus reflected does not account for anticipated loan repayments to the general fund after fiscal year 2010-11.

The following chart compares the property tax/tax increment revenues captured per City/RDA. As noted below Chula Vista receives approximately 16.89% of the property tax/tax increment paid by its constituency. Other Cities such as Poway and Coronado capture more due to their expanded project areas and healthier tax base.



VIII. Public Facilities Development Impact Fee (PFDIF) Program

General Impact Fee Requirements

Assembly Bill 1600, enacted in 1987 and effective January 1, 1989, as Government Code Section 66000, requires that a city establish a reasonable relationship, or 'nexus', between a development project or class of development projects and the public improvements for which a developer fee is charged. The City must:

- Identify the purpose of the fee;
- Identify the use to which the fee will be put;
- Determine that there is a reasonable relationship between the fee's use and the type of development projects on which the fee is imposed;
- Determine that there is a reasonable relationship between the need for the public facility and the type of development projects on which the fee is imposed; and
- Lastly, when a city imposes a fee as a condition of development approval, it must determine that there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of that facility attributable to the development.

Government Code Section 66000 also requires that the public agency segregate and account for the fees received separate from general funds. In addition, if a city has had possession of a developer fee for five years or more and has not committed or expended that money for a project, then the City must make findings describing the continuing need for the fees for each fiscal year after the five year period has expired. Fees excluded from the requirements of Section 66000 include:

- Fees charged in lieu of park land dedication under the Quimby Act;
- Regulatory and processing fees;
- Fees collected pursuant to a development agreement;
- Fees collected pursuant to a reimbursement agreement that exceed the developer's share of an improvement;
- Assessment district proceedings or taxes; and
- Service charges for utility services such as sewer, water, and electricity.

As described above, current law requires the City to make a finding of continued need if a fee remains unexpended after five (5) years. Since the City's development timeline runs beyond the year 2030, it will often be the case that fees remain unexpended after five years. Whether these funds are committed or not, the city shall make the following findings with respect to the unexpended funds:

- Identify the purpose to which the fee is to be put;
- Demonstrate a reasonable relationship between the fee and the purpose;

- Identify all sources and amounts of funding anticipated to complete financing of the improvement; and
- Designate the approximate date on which such funding will be available.

Following the adoption of development impact fees to fund major street improvements in its eastern territories, the City undertook an in-house study of other public facilities and related capital needs that were projected to be impacted by future growth. The result of that study was the adoption of Ordinance 2320 in August of 1989 that established a series of 'supplemental' impact fees. Collectively, these supplemental fees for public facilities totaled $1,374 per Equivalent Dwelling Unit (EDU). This initial fee was established on an urgency basis, pending a more comprehensive review.

During the following year, both the impact fees and the City's capital needs were studied in greater detail. On January 8, 1991, the City Council adopted Ordinance 2432 (First Reading), amending Ordinance 2320 and establishing the Public Facilities Development Impact Fee (PFDIF) at $2,150 per EDU.

In 1992 impact fees and needs were again reviewed, in accordance with the City's ordinance. Although minor adjustments were made in various components, the 1992 study recommended that the overall fee remain at $2,150 per EDU, pending a more detailed study after the planned annexation of the Otay Ranch area.

In 2000, a comprehensive study of the PFDIF was presented to Council. This update was initiated in 1997 and completed in 1999, following the aforementioned Otay Ranch annexation. For this study, all major facility master plans underlying the PFDIF program were reviewed in detail. In addition, for the first time in the PFDIF program, the 1999 report included an in-depth cash flow analysis so that appropriate financing charges could be integrated into the fee program. The 1999 study recommended increasing the fee per EDU to $2,618, with City Council adopting Ordinance 2810 on June 6th, 2000.

The next study of the PFDIF program was completed in March of 2002. This report recommended increasing the fee per EDU to $4,888. This increase was largely the result of recently completed formal master plans for the Civic Center and Police Headquarters Facility. This update also introduced the ability for developers to prepay their Police Facility and Civic Center components. The Prepayment Program set a fee rate that incorporated only project costs and omitted financing costs. The report was presented to Council and approved via Ordinance 2855 on April 9th, 2002.

In November of 2002, the program was updated again to introduce a new 'Recreation Facilities' component and update the existing component fees. Council approved an increase of the PFDIF Program fee to $5,048 per EDU per the report's recommendation on November 19th, 2002, via Ordinance 2887.

On June 14, 2005, Council approved Ordinance 3010, authorizing the use of an automatic annual fee increase based upon one of two applicable indexes, the Engineering News Record Building Construction Cost Index (Los Angeles area) and the Consumer Price Index (San Diego Metropolitan Statistical Area). The Construction Cost Index was approved for all components with construction either underway, or planned for in the future (Civic Center, Libraries, Fire Suppression, and Major Recreation Facilities components). For all other components (Police Facility, Corporation Yard, and Administration components) the Consumer Price Index was approved. This action increased the fee to $5,480 per EDU; with the first automatic indexed increase occurring in October of 2005, increasing the fee to $5,489.

In October of 2006, Council approved the last comprehensive update of the PFDIF program. This update did not include any new major facilities, instead focusing on updating the program obligation to account for increased construction and financing costs of previously included projects. In addition, the 2006 update included increased densities and other land use changes included in the General Plan Update approved by Council on December 13th, 2005. The next update will address new facility needs identified in various Master Plan updates currently in progress and is planned for completion by the end of calendar year 2010.

PFDIF Program Scope

This Public Facilities Development Impact Fee Report is intended to identify the public facilities and related capital needs required to support future development within the City of Chula Vista's general planning area. The PFDIF program consists of 11 components:

Component 1: Civic Center Expansion
Component 2: Police Facilities and Equipment
Component 3: Corporation Yard Relocation
Component 4: Libraries
Component 5: Fire Suppression System
Component 6: Geographic Information Systems (GIS)
Component 7: Computer Systems
Component 8: Telecommunications Systems
Component 9: Records Management System
Component 10: Administration
Component 11: Recreation Facilities

Individual PFDIF components may include multiple projects. For example, Component 5: Fire Suppression System includes various fire stations (e.g. Rancho del Rey, Otay Ranch – Village 2, Otay Ranch – EUC).

PFDIF Funds

Since the approval of the PFDIF program in 1991, a total of $99 million in fees collected have funded fire stations, recreation centers, a library and related equipment on a cash basis. The City financed the construction of the new Corporation Yard, Police Facility and Civic Center with the debt service payments split between the PFDIF program and the General Fund. As a result of the significant reduction in development-related fees collected over the past three years, the City has restructured the Corporation Yard debt and created some cash flow relief to the PFDIF fund for the next 2 years in order to meet debt obligations and avoid impacts to the General Fund. The restructuring will provide for cash flow relief until development returns to reasonable levels which would generate revenue to meet the annual debt payments and at some point move forward with additional capital projects such as the Rancho Del Rey Library.

DIF FUND	CURRENT DIF *	FUND BALANCE As of June 30, 2009
PUBLIC FACILITIES:		
Administration	563/SFDU	2,655,487
Civic Center Expansion	2,458/SFDU	10,352,154
Police Facility	1,565/SFDU	(805,063)
Corp. Yard Relocation	421/SFDU	3,172,910
Libraries	1,413/SFDU	8,127,644
Fire Suppression Systems	1,243/SFDU	(17,882,327)
Recreation Facilities	1,072/SFDU	(6,494,319)
PUBLIC FACILITIES TOTAL	8,735/SFDU	$(873,514)

**Equivalent Dwelling Unit (EDU) shown. Fee varies by type of residential unit, and for commercial and industrial development.*

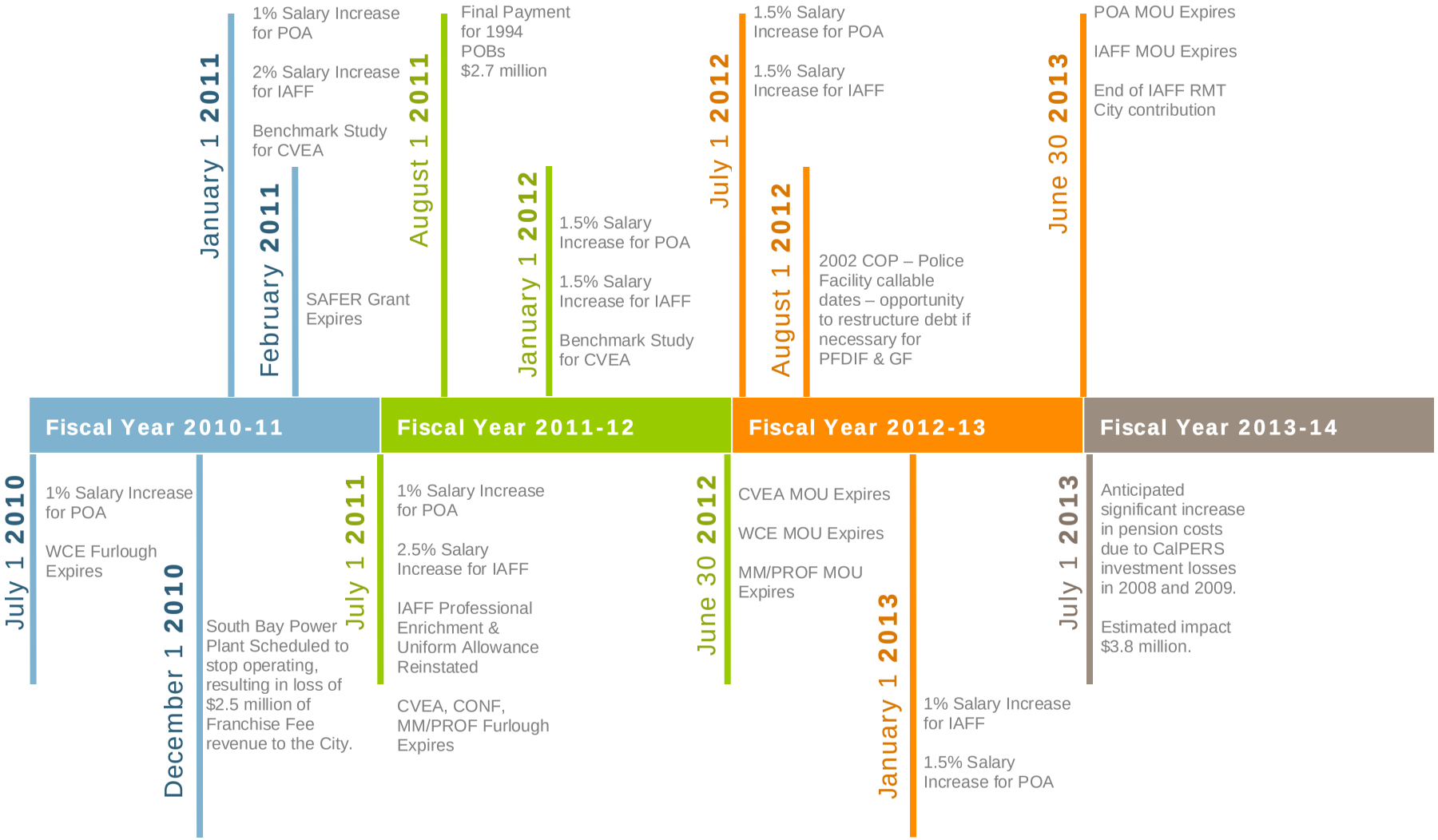
Key Variable Sensitivity Analysis
City of Chula Vista - General Fund
Financial Summary

Attachment A

	Actual 2008/09	*6/30/10 (3rd Qtr)* 2009/10	*CM Prop Budget* 2010/11	*Forecast* 2011/12	*Forecast* 2012/13	*Forecast* 2013/14	*Forecast* 2014/15
REVENUES							
Property Taxes	$ 29,258,925	$ 25,311,485	$ 24,073,147	$ 24,287,941	$ 25,233,722	$ 26,217,154	$ 27,254,540
Sales Tax (Based on Eff. 1% Tax Rate)	25,589,021	23,244,508	23,633,851	24,106,528	24,829,724	25,574,616	26,341,854
Franchise Fees	9,379,964	8,446,505	7,652,012	7,794,686	7,940,292	8,088,893	8,240,556
Utility Users Taxes	7,848,557	9,401,279	8,755,835	8,799,614	8,843,612	8,887,830	8,932,269
Transient Occupancy Taxes	2,302,412	1,940,930	1,940,930	1,979,749	2,019,344	2,059,730	2,100,925
Motor Vehicle License Fees	19,904,630	17,716,642	16,933,500	17,272,170	17,950,816	18,656,364	19,389,884
***Subtotal Major Discretionary Revenues**	**$ 94,283,509**	**$ 86,061,349**	**$ 82,989,274**	**$ 84,240,687**	**$ 86,817,510**	**$ 89,484,587**	**$ 92,260,029**
Development Revenue	1,198,500	1,494,160	1,350,433	1,376,495	1,405,389	1,447,551	1,490,977
Licenses and Permits	670,962	653,608	711,050	732,367	754,322	776,952	800,261
Fines, Forfeitures & Penalties	2,357,044	2,187,770	2,059,980	2,096,820	2,138,756	2,181,531	2,225,162
Use of Money and Property	4,561,487	1,845,965	6,362,385	1,720,027	1,755,728	1,808,400	1,862,652
Other Local Taxes	2,068,784	2,031,402	2,031,402	2,063,616	2,104,888	2,146,986	2,189,926
Police Grants	1,803,853	1,736,061	1,412,669	1,124,161	1,124,161	1,134,271	1,078,639
Other Agency Revenue	3,263,452	1,260,031	1,172,629	1,202,120	1,227,112	1,234,514	1,261,100
Charges for Services	5,972,673	5,703,229	5,714,674	5,862,650	6,002,341	6,147,857	6,297,048
Interfund Reimbursements	11,136,368	10,544,050	9,665,625	9,813,845	9,958,875	10,115,186	10,274,258
Other Revenues - Miscellaneous	2,019,137	1,926,206	1,355,897	1,483,814	1,508,229	1,533,376	1,559,277
Transfers From Other Funds	11,167,169	14,876,249	18,405,004	12,111,173	12,303,716	12,500,192	12,700,681
****Total Revenues**	**$ 140,502,938**	**$ 130,320,080**	**$ 133,231,022**	**$ 123,827,775**	**$ 127,101,027**	**$ 130,511,403**	**$ 134,000,009**
EXPENDITURES							
Personnel Services	80,437,019	$72,557,648	$71,704,595	$74,631,782	$75,677,422	$75,813,519	$75,828,236
Flex/Insurance	9,096,257	$9,103,816	10,336,798	10,961,915	12,058,107	13,263,917	14,590,309
PERS	21,068,595	$19,903,441	20,979,385	20,856,163	21,287,661	22,555,249	23,026,174
Supplies and Services	13,275,817	14,511,403	14,269,519	14,554,909	14,846,008	15,142,928	15,445,786
Utilities	4,722,287	4,843,637	5,244,077	5,506,281	5,781,595	6,070,675	6,252,795
Other Expenses	4,303,065	768,208	731,579	746,211	761,135	776,357	791,885
Equipment (Capital not CIP)	84,064	77,636	88,500	90,270	92,075	93,917	95,795
Transfers/Debt Service	7,273,232	8,554,291	8,751,569	8,839,085	6,418,476	6,482,660	6,547,487
Capital Improvement Projects	104,941	-	1,125,000	-	-	-	-
Non-CIP Project Expenditures	-	-	-	100,000	100,000	100,000	100,000
Total Expenditures	**$140,365,277**	**$130,320,080**	**$133,231,022**	**$136,286,616**	**$137,022,478**	**$140,299,222**	**$142,678,467**
Adjustment to Fund Balance	$ (102,701)	$ -	$ -	$ -	$ -	$ -	$ -
Net Impact to Fund Balance	$34,960		$0	($12,458,841)	($9,921,451)	($9,787,819)	($8,678,458)
Fund Balance, Fiscal Year End	**$9,336,805**	**$9,336,805**	**$9,336,805**				
Fund Balance as a % of Projected Expenditur	**6.7%**	**6.7%**	**6.7%**				

CITY OF
CHULA VISTA

Major General Fund Milestones



Prepared by Finance Department, January 2010

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