



## OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through March 31, 2011 and projecting out to June 30, 2011. The purpose of this report is to provide the City Council, Management and the Citizens of Chula Vista an update on the City's fiscal status based on the most recent financial information available.

## ECONOMIC UPDATE

In its first quarterly report of 2011, UCLA Anderson Forecast is cautious regarding the national economy, as real Gross Domestic Product (GDP) continues to grow at a steady pace and employment continues to increase. That said, the recovery in the U.S. economy is still slow – and the recession cut jobs so deeply – that growth will be insufficient to surpass the employment peak reached in early 2008. The California forecast is slightly weaker in the near term than it was in December with the unemployment rate predicted to be substantially above the U.S. rate at the end of 2013.

In a report titled "On the Mend," UCLA Anderson Forecast Senior Economist David Shulman says, "The U.S. economy is getting better. Slowly, in fits and starts, real GDP is growing and employment is increasing." With that, the Forecast calls for real GDP growth of 3.8% in the current quarter, with 3% growth expected for the duration of the forecast's 2013 horizon.

According to Shulman, the economy is being propelled by strong increases in corporate spending and that the impetus for this spending is coming from extraordinarily low interest rates, a rapidly recovering stock market and investment incentives coming out of Washington D.C. Exports and the automobile sector are also spurring the recovery, the latter rebounding as pent-up demand spurs new car sales.

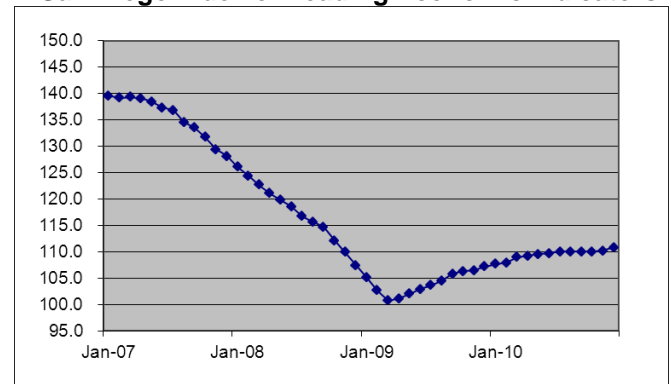
California's forecast, authored by Senior Economist Jerry Nickelsburg, reflects the mixed signals emanating from the State's economic data. Job creation in California remains sluggish. Nevertheless, California's unemployment rate is predicted to be substantially above the U.S. rate at the end of 2013. The forecast actually calls for slower growth than was expected in the December report and that near term slow growth

means the unemployment rate in California will remain at 10.5% next year. The drivers of the recovery in California will be education, health care, exports and technology, as well as residential construction. The expectation for 2011 is a growth in employment of 1.1%. The bulk of this growth will be in the latter part of the year...<sup>1</sup>

The USD's Index of Leading Economic Indicators for San Diego County rose 1.0 percent in March. The gain was led by big increases in building permits, initial claims for unemployment insurance, and help wanted advertising. Local consumer confidence and the outlook for the national economy were also up solidly. The only negative was a small drop in local stock prices.

The outlook for the local economy continues to be positive. One area where things are picking up is the labor market, with 24,700 jobs added in San Diego County between March 2010 and March 2011. While the gain is welcome, the local economy still has a long way to go to fully recover. At the March rate of job growth, it will take another four years to get back to the same local level of employment as the peak in December 2007.<sup>2</sup>

**San Diego Index of Leading Economic Indicators**



## GENERAL FUND SUMMARY

<sup>1</sup> UCLA Anderson Forecast Press Release March 9, 2011.

<sup>2</sup> University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, April 28, 2011.

City Council Policy No 220-03 recommends the City maintain at least an 8 percent reserve level with a long-term goal of 15 percent. As of June 30, 2010, the General Fund reserve level was at 7.3 percent (audited).

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2010 (audited)	\$ 10.2	\$ 10.2
Revenues & Transfers In	133.8	131.1
Expenditures & Transfers Out	133.8	128.5
Projected Surplus	0.0	2.6
Transfer to Economic Contingency Reserve		-2.6
<b>Projected Fund Balance - June 30, 2011</b>	<b>\$ 10.2</b>	<b>\$ 10.2</b>
<b>Percentage of Operating Budget</b>	<b>7.3%</b>	<b>7.3%</b>

As noted in previous reports to Council, the Five Year Forecast projected a deficit of \$12.5 million for fiscal year 2011/12. This projected deficit grew by approximately \$5.6 million to \$18.1 million with the anticipated loss of the Utility User Tax (UUT) revenue. The reduction in UUT revenue is also impacting the current year's budget; this anticipated loss of revenue is reflected in the third quarter financial projections. In total, discretionary revenues have been adjusted downward by \$1.6 million. This reflects a reduction in UUT partially offset by increases in other discretionary revenues, primarily sales tax revenues.

The third quarter financial projections also reflect a downward adjustment in programmatic revenues of \$1.1 million but corresponding departmental expenditure savings offsets that revenue shortfall. Based on the overall projected revenues and expenditures the City projects ending the current fiscal year with a \$2.6 million surplus that will be used to balance the fiscal year 2011/12 budget.

Total expenditures are projected at \$128.5 million and reflect anticipated savings from the budget reduction plan that was largely implemented in January 2011.

## Revenues

Reflected in the table are discretionary and departmental programmatic revenues. The projection for discretionary revenues indicates the downward adjustment of \$1.6 million. Projections for Departmental programmatic revenues have been adjusted downwards by \$1.1 million and are mostly related to staff time reimbursements, fines, forfeitures and penalties and other revenues.

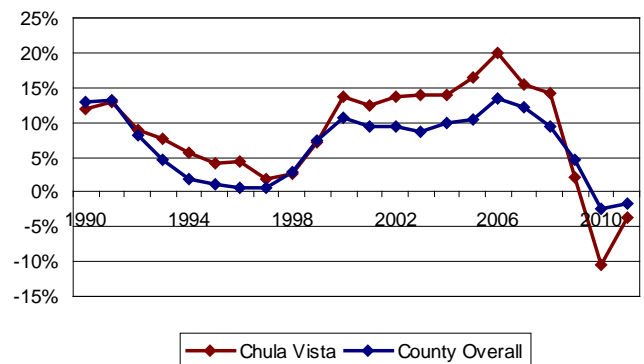
Revenues	FY 2010/11		Delta
	Budget	Projected	
Property Tax	24,073	24,073	(0)
Sales Tax	17,589	19,186	1,596
Sales Tax In Lieu (1/4%)	6,044	6,686	642
Motor Vehicle License Fee	16,934	16,951	17
Franchise Fees	7,652	7,395	(257)
Utility Users Tax	8,756	4,970	(3,785)
Transient Occupancy Tax	1,941	2,086	145
Business License Tax	1,190	1,190	0
Real Property Transfer Tax	841	850	9
Licenses and Permits	849	974	126
Fine, Forfeitures & Penalties	2,085	1,722	(363)
Use of Money and Property	6,512	6,847	334
Other Agency Revenue	2,712	2,693	(19)
Charges for Services	7,066	6,289	(776)
Other Revenues	11,168	10,977	(190)
Transfers From Other Funds	18,405	18,255	(150)
<b>Total</b>	<b>\$133,817</b>	<b>\$131,144</b>	<b>\$(2,673)</b>

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

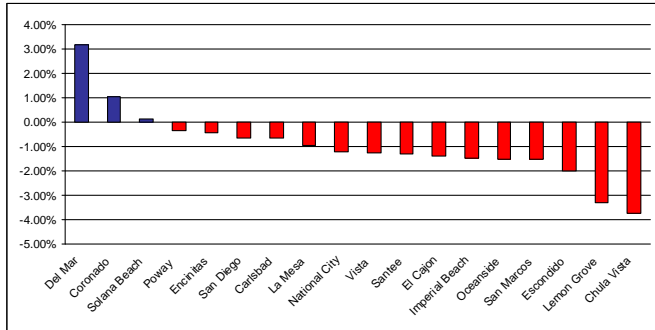
Property tax is the City's largest revenue source, representing 18 percent of General Fund budgeted revenue in fiscal year 2010/11.

The fiscal year 2010/11 Property Tax budget anticipated a 4.9 percent decrease because of the reduction in the City's base assessed values from 2010 to 2011. Based on the collections for the first nine months of the fiscal year property tax revenues appear to be trending as budgeted. The dollar value of the SR125 property tax appeal and its effect on current year revenues is still unknown at the time of this report.

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



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

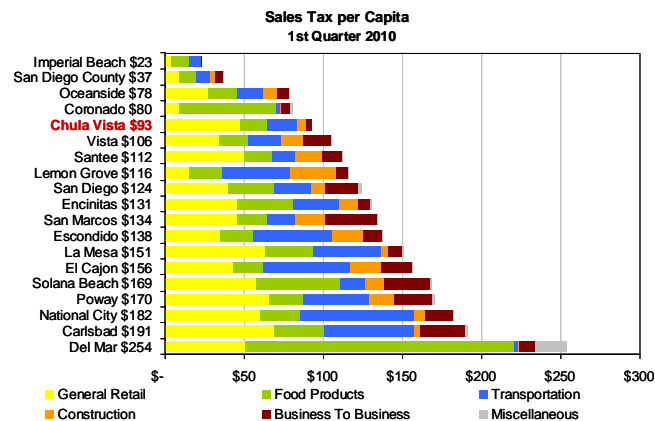


**Sales Tax.** Sales tax is the City's second largest revenue source, representing 17.7 percent of fiscal year 2010/11 budgeted revenues. The sales tax budget for fiscal year 2010/11 anticipated a 1.7% increase over the prior year projection.

City staff has received sales tax data from the City's sales tax consultant, HdL Companies. They report that the change in sales tax receipts between fourth quarter calendar year 2010 and fourth quarter calendar year 2009 increased by 6.6 percent Statewide, by 6.8 percent in San Diego County and 6.9 percent in Chula Vista.

Sales tax projections for the fiscal year are being adjusted upwards by \$1.6 million based on recent trends and analysis by the sales tax consultant. In addition, Sales Tax In-Lieu is being adjusted upwards by \$642,000 based on recent reports from the State.

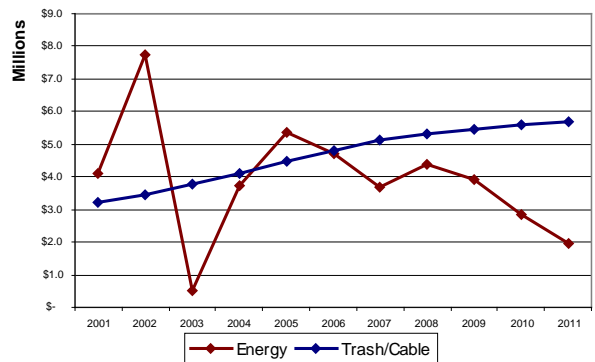
The chart represents sales tax per capita as compared to other Cities in the County.



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

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

**Franchise Fees.** Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (9.05% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E is the single largest generator of franchise fees and accounts for approximately 35% of the total franchise revenues. SDG&E collects the franchise fee from Chula Vista customers 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.

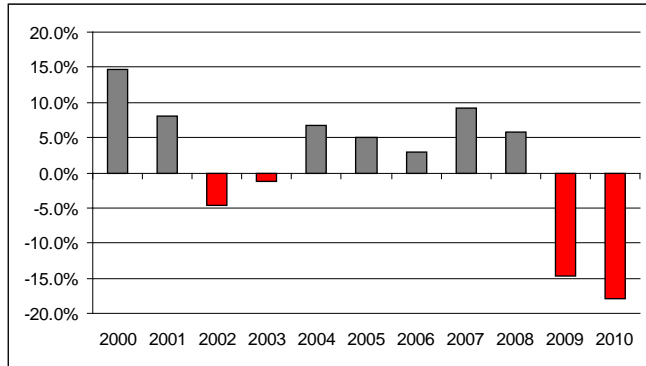


The chart above reflects the drop in revenue in the current fiscal year due to the drop in natural gas prices and the closure of the power plant.

Revenue growth is projected based on population and inflation factors. Franchise Fee revenue projections are being adjusted downward by \$0.5 million due to the unusually mild summer and reduced usage of electricity

for cooling and because of recent decreases in natural gas prices.

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



Above is a chart showing the percentage change in TOT revenues compared to prior years. Current collections of TOT revenue indicate that projected revenues will exceed the amount budgeted by \$145,447.

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

The City's UUT ordinance (Chula Vista Municipal Code Chapter 3.44) is outdated as it applies to telecommunications usage and needs to be amended to reflect recent changes in Federal tax law and to modernize the definition of telecommunications so that it is technology neutral. The City attempted to modernize the ordinance by placing Proposition H on the November 2010 election but the proposition was defeated and therefore revenue projections are being adjusted accordingly by \$3.8 million.

## Expenditures

Department	Amended Budget	Third Qtr Actual	% Expended
City Council	\$ 1,288	\$ 830	64.4%
Boards/Commissions	15	7	45.2%
City Clerk	936	626	66.9%
City Attorney	2,170	1,302	60.0%
Administration	1,801	1,252	69.5%
Information Technology	3,227	2,259	70.0%
Human Resources	3,789	2,552	67.3%
Finance	3,210	2,176	67.8%
Non-Departmental	9,174	6,022	65.6%
Animal Care Facility	2,317	1,623	70.0%
Planning & Building	3,957	2,461	62.2%
Police	44,175	31,658	71.7%
Fire	22,188	15,947	71.9%
Public Works	25,943	17,133	66.0%
Recreation	4,801	2,992	62.3%
Library	4,851	2,966	61.1%
<b>Totals</b>	<b>\$ 133,843</b>	<b>\$ 91,807</b>	<b>68.6%</b>

The General Fund's Amended Budget reflects the Council adopted budget of \$133.8 million and all mid-year appropriations (\$609,528) approved by City Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 68.6 percent of the General Fund budget after 75 percent of the fiscal year has elapsed.

The following table shows the General Fund departments' expenditure budgets and the projected expenditures for the fiscal year. The updated department projections anticipate savings of approximately \$5.3 million.

Department	Amended Budget	Projected 6/30/10	Delta
City Council	\$ 1,288	\$ 1,244	\$ (44)
Boards/Commissions	15	15	\$ -
City Clerk	936	827	\$ (108)
City Attorney	2,170	1,965	\$ (205)
Administration	1,801	1,713	\$ (88)
Information Technology	3,227	3,027	\$ (201)
Human Resources	3,789	3,619	\$ (170)
Finance	3,210	2,986	\$ (224)
Non-Departmental	9,174	10,566	\$ 1,392
Animal Care Facility	2,317	2,249	\$ (68)
Planning & Building	3,957	3,500	\$ (457)
Police	44,175	43,060	\$ (1,116)
Fire	22,188	21,805	\$ (383)
Public Works	25,943	23,927	\$ (2,016)
Recreation	4,801	4,026	\$ (775)
Library	4,851	3,964	\$ (887)
<b>Totals</b>	<b>\$ 133,843</b>	<b>\$ 128,493</b>	<b>\$ (5,349)</b>

## Mid-Year Budget Amendments

Budget Amendments	Revenue	Expenditure	Net Impact
Hourly Staff Funded by CAL ID Program	\$ 95,000	\$ 95,000	\$0
DR189 - Bonita Canyon Repairs	150,000	150,000	-
Grant Funded Chief Service Officer	86,340	86,340	-
Leap into Reading Grant Carryover	2,000	2,000	-
<b>Total of 1st Quarter Budget Amendments</b>	<b>\$331,340</b>	<b>\$331,340</b>	<b>\$0</b>
Funding to Close Completed CIP Projects	\$ -	\$ 25,344	(\$25,344)
Red Cross Grant	133,333	133,333	-
Contract Amendment with Imperial Beach	52,251	52,251	-
Collection Agency contract for Library Fines	25,000	25,000	-
Heritage Museum Photo Contest	9,600	9,600	-
Online Homework Help Program	20,000	20,000	-
Energy and Water Conservation Services	12,660	12,660	-
<b>Total of 2nd Quarter Budget Amendments</b>	<b>\$252,844</b>	<b>\$ 278,188</b>	<b>(\$25,344)</b>
Revenue from new CBAG positions	\$ 9,990	\$ -	\$ 9,990
<b>Total of 3rd Quarter Budget Amendments</b>	<b>\$ 9,990</b>	<b>\$ -</b>	<b>\$ 9,990</b>
<b>Year-to-Date Budget Amendments</b>	<b>\$594,174</b>	<b>\$609,528</b>	<b>(\$15,354)</b>

Mid-year appropriations through the third quarter totaled \$609,528 with offsetting revenues of \$594,174 for a net impact to the General Fund of \$15,354.

The only budget amendment during the quarter was for the 4 percent administrative fee that the City receives for administering the CBAG program.

## Budget Transfers

There were three administrative budget transfers during the third quarter.

Dept	From	To	Description	Amount
PW	S&S	Capital	New Mower & Trailer Cost	1,449
PW	S&S	Personnel	Adj To S&S Budget	10,000
HR	S&S	S&S	Adj To S&S Budget	2,500
CC	S&S	S&S	Adj To S&S Budget	1,500
			<b>Total 1st Quarter Budget Transfers</b>	<b>\$15,449</b>
			No transfers for the Quarter	
			<b>Total 2nd Quarter Budget Transfers</b>	<b>\$0</b>
CC	Personnel	Personel	Transfer Auto Allowance to Wages	\$4,108
Rec	S&S	Utilities	For Utility Costs	\$15,000
CC	S&S	S&S	Align Budget with Actuals	6,000
			<b>Total 3rd Quarter Budget Transfers</b>	<b>\$25,108</b>

## Development Services Fund

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

Preliminary reviews for the current year appear to indicate a deficit for fiscal year 2010/11 of

approximately \$152,000 that is due to less staff time reimbursements in the Land Development and Development Planning areas.

Staff will continue to monitor the Development Services Fund.

Division	Projected Revenues	Projected Expenditures	Projected Net Impact
Planning	1,783	2,081	(298)
Building	2,287	2,001	286
Engineering	1,555	1,695	(140)
<b>DSF TOTAL</b>	<b>\$ 5,624</b>	<b>\$ 5,776</b>	<b>\$ (152)</b>