



Quarterly Financial Report
Second Quarter Ending December 31, 2010
 February 22, 2011

OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through December 31, 2010 and projecting out to June 30, 2010. The purpose of this report is to provide the City Council, Management and the Citizens of Chula Vista an update on the City's fiscal status based on the most recent financial information available.

ECONOMIC UPDATE

In its fourth quarterly report of 2010, the UCLA Anderson Forecast calls for "modest growth and distressingly high unemployment" for most of 2011, with an acceleration of growth late next year that will gradually lower the unemployment rate. The California forecast reads similarly, with slow growth expected until the end of next year.

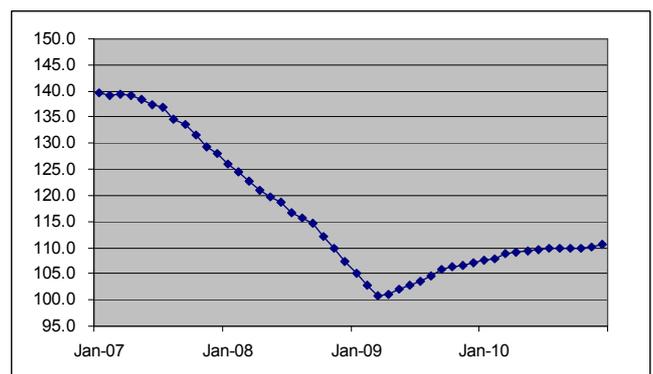
In a report titled, "Risky Business," UCLA Anderson Forecast Senior Economist David Shulman lays out the Federal Reserve's plan to "expand its balance sheet" by \$600 billion over the next eight months through the purchase of intermediate-term bonds in an effort to lower long-term interest rates and thereby stimulate consumption and investment. Shulman believes that this policy will be "modestly helpful," noting that recent economic data have been encouraging. As a result, the Forecast has revised upward both its real Gross Domestic Product (GDP) and inflation forecasts. But, there is a "but." "Unfortunately, even with the jobs gains averaging 150,000 per a month in 2011 and 200,000 a month in 2012," Shulman writes, "unemployment will remain above 9% through the third quarter of 2012."

In his conclusion, Shulman writes that the economy is healing – slowly – and the Forecast calls for more rapid growth late next year. The Forecast report says that inflation will rise faster than the Fed expects, leading to a tightening of monetary policy in early 2012. The Forecast calls for real GDP to grow at a 2% plus annual rate through the third quarter of 2011, then ramp up to a 3% or so growth rate. As for inflation, the Forecast says that it should be "at or above" the Fed's informal 2% target by late next year.¹

The USD's Index of Leading Economic Indicators for San Diego County rose 0.4 percent in December. Sharp increases in local stock prices and the outlook for the national economy pushed the USD Index to a second consecutive gain after having been unchanged for three months in a row. On the downside, building permits remain weak as construction activity continues to lag. Local consumer confidence, initial claims for unemployment insurance, and help wanted advertising were virtually unchanged, with the former slightly positive and the latter two slightly negative.

With December's gain, the USD Index has now risen or been unchanged for 21 straight months. As mentioned last month, the forecast is for the local economy to add between 10,000 and 15,000 jobs in 2011, compared to 6,300 gained in 2010. The gain is based on expected solid growth in the national economy, and a rebound in tourism and construction locally. Potential problems that could slow the rebound are a continued high level of foreclosures and the impact of high unemployment, which has topped 10 percent locally for 19 consecutive months. Also, budget deficits at every level of government could lead to tax increases and/or big cutbacks in spending and employment, both of which would slow the economic recovery. A last potential problem is the recent spike in gas prices, which if it lasts would reduce consumer buying power and increase prices of goods shipped into the region.²

San Diego Index of Leading Economic Indicators



¹ UCLA Anderson Forecast Press Release December 7, 2010.

² University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, January 28, 2011.

GENERAL FUND SUMMARY

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	131.3
Expenditures & Transfers Out	133.8	132.6
Projected Deficit	0.0	-1.3
Implementation of Budget Reduction Plan		3.5
Transfer to Economic Contingency Reserve		-2.2
Projected impact to Fund Balance	0.0	0.0
Projected Fund Balance - June 30, 2011	\$ 10.2	\$ 10.2
Percentage of Operating Budget	7.3%	7.3%

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 loss in the Utility User Tax (UUT) revenue. The reduction in UUT revenue is also impacting the current year's budget; this loss of revenue is now reflected in the second 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 including property tax revenue and sales tax revenues. The savings in fiscal year 2011/12 from the implementation of the budget reduction plan are estimated at \$3.5 million. These savings will allow the following:

- Mitigate the remaining shortfall in the current year resulting from the reduction in UUT revenue; and
- Transfer \$2.2 million to the Economic Contingency Reserve, which will then be used to balance the General Fund in fiscal year 2011/12.

The second quarter financial projections also reflect a downward adjustment in programmatic revenues of \$1.0 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 balanced budget and with no impact to reserves.

Total expenditures are projected at \$132.6 million offset by projected revenues of \$131.3 million prior to implementation of 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 that downward adjustments of \$1.6 million are required at this time. Projections for Departmental programmatic revenues have been adjusted downwards by \$1.0 and are mostly related to staff time reimbursements, fines forfeitures and penalties and other revenues.

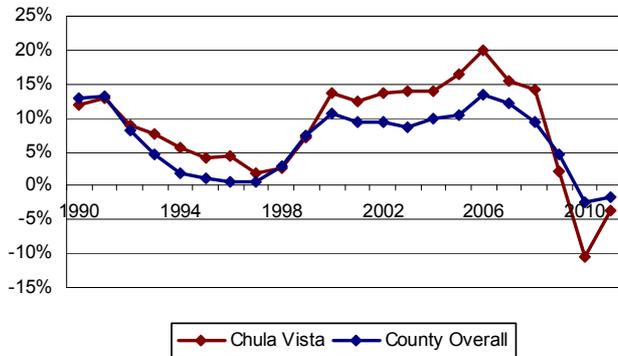
Revenues	FY 2010/11		Delta
	Budget	Projected	
Property Tax	24,073	24,718	645
Sales Tax	17,589	18,150	561
Sales Tax In Lieu (1/4%)	6,044	6,686	642
Motor Vehicle License Fee	16,934	16,951	17
Franchise Fees	7,652	7,152	(500)
Utility Users Tax	8,756	5,577	(3,179)
Transient Occupancy Tax	1,941	1,941	0
Business License Tax	1,190	1,190	0
Real Property Transfer Tax	841	850	9
Licenses and Permits	849	925	77
Fine, Forfeitures & Penalties	2,085	1,825	(260)
Use of Money and Property	6,512	6,851	339
Other Agency Revenue	2,712	2,657	(55)
Charges for Services	7,066	6,628	(438)
Other Revenues	11,168	10,918	(249)
Transfers From Other Funds	18,405	18,255	(150)
Total	\$ 133,817	\$ 131,275	\$ (2,542)

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.

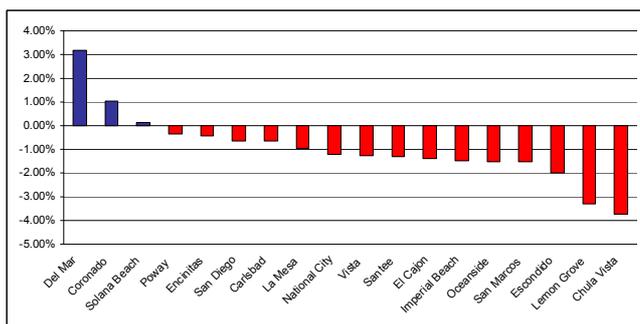
Property tax is the City's largest revenue source, representing 18 percent of General Fund budgeted revenue in fiscal year 2010/11.

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 half of the fiscal year property tax revenues appear to be trending upwards by \$645,000. 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.

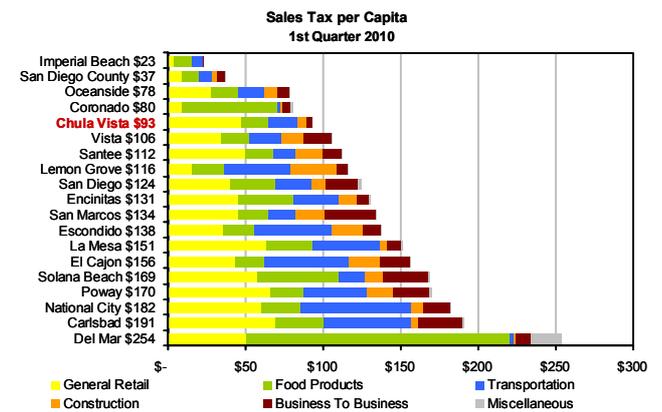
City staff has received sales tax data from the City's sales tax consultant, HdL Companies. They report that the change in sales tax receipts between third quarter calendar year 2010 and third quarter calendar year 2009 increased by 4.7 percent Statewide, by 4.0 percent in Southern California and 4.1 percent in Chula Vista.

The results of the 3rd quarter report shows that the most significant gains came from the General Consumer Goods sector, which was up 3.7% primarily due to Walmart +5.0%, Costco +27.8% and Fuller Ford +12.3%. The jump in fuel prices increased the results

for the Fuel and Service Stations sector up 8.3% adjusted.

Sales tax projections for the fiscal year are being adjusted upwards by \$561,000 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.

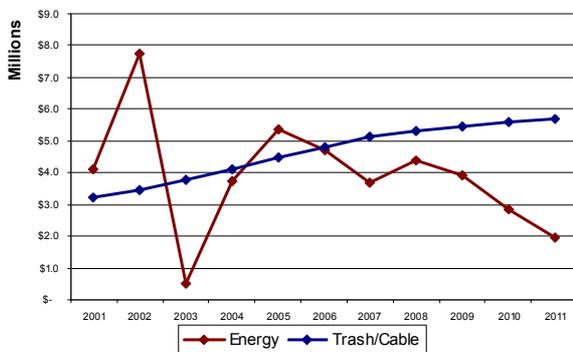
Due to the new formula by the State, 97% of the City's VLF revenues fluctuate with changes in assessed values in the City. Due to current state of the housing market in the City budgeted VLF revenues for the current fiscal year have been adjusted down by 4.4% from the prior year projections. There is 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.

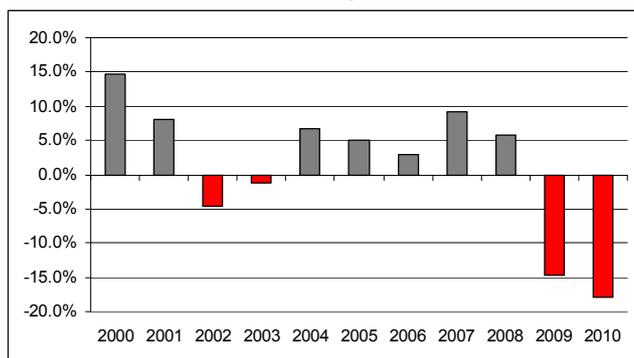
Trash franchise fees and cable fees are more predictable due to the fixed rates charged and the monthly and quarterly receipt of the revenues respectively.

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.

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.



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. It is anticipated that no adjustments to the current year budget are required at this time.

Utility Users Tax (UUT). The City adopted its UUT in 1970. The City 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.

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 \$3.2 million.

Expenditures

Department	Amended Budget	Second Qtr Actual	% Expended
City Council	\$ 1,288	\$ 549	42.6%
Boards/Commissions	15	7	44.5%
City Clerk	936	455	48.7%
City Attorney	2,170	827	38.1%
Administration	1,801	818	45.4%
Information Technology	3,227	1,647	51.0%
Human Resources	3,789	2,002	52.8%
Finance	3,210	1,463	45.6%
Non-Departmental	9,174	5,384	58.7%
Animal Care Facility	2,317	1,074	46.3%
Planning & Building	3,957	1,667	42.1%
Police	44,175	20,643	46.7%
Fire	22,188	10,436	47.0%
Public Works	25,943	11,649	44.9%
Recreation	4,801	2,108	43.9%
Library	4,851	2,185	45.1%
Totals	\$ 133,843	\$ 62,915	47.0%

The General Fund's Amended Budget reflects the Council adopted budget of \$133.8 million and all mid-year appropriations (\$584,184) approved by City Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 47 percent of the General Fund budget after 50 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 \$1.3 million.

Department	Amended Budget	Projected 6/30/10	Delta
City Council	\$ 1,288	\$ 1,241	\$ (47)
Boards/Commissions	15	15	\$ -
City Clerk	936	882	\$ (54)
City Attorney	2,170	2,098	\$ (72)
Administration	1,801	1,755	\$ (46)
Information Technology	3,227	3,120	\$ (107)
Human Resources	3,789	3,655	\$ (134)
Finance	3,210	3,030	\$ (180)
Non-Departmental	9,174	10,502	\$ 1,327
Animal Care Facility	2,317	2,268	\$ (49)
Planning & Building	3,957	3,620	\$ (337)
Police	44,175	43,640	\$ (535)
Fire	22,188	22,277	\$ 89
Public Works	25,943	25,268	\$ (675)
Recreation	4,801	4,617	\$ (184)
Library	4,851	4,580	\$ (270)
Totals	\$ 133,843	\$ 132,567	\$ (1,275)

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	-
Total of 1st Quarter Budget Amendments	\$331,340	\$331,340	\$0
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	-
Total of 2nd Quarter Budget Amendments	\$ 252,844	\$ 278,188	(\$25,344)
Year-to-Date Budget Amendments	\$584,184	\$609,528	(\$25,344)

Mid-year appropriations through the first quarter totaled \$584,184 with offsetting revenues of \$609,528 for a net impact to the General Fund of \$25,344. The following discusses new appropriations for the second quarter.

- Transfer from the General Fund to the TDA and TEA funds to close out various capital improvement projects
- Red Cross grant to the Fire Department for brush management activities
- Contract with Imperial Beach for Animal Control Services
- Library contract with Unique Management for collection of Library fines
- County of San Diego grant for the Centennial Exhibit and Photography contest
- CA State Library grant Out-of-School-Time-Online Homework Help Program
- SDG&E Programs for Cool Planet and the Energy Efficiency Business Incentive

Budget Transfers

There were no administrative budget transfers during the second 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
Total 1st Quarter Budget Transfers				\$15,449
No transfers for the Quarter				
Total 2nd Quarter Budget Transfers				\$0

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 \$80,000 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	1,963	2,046	(83)
Building	2,218	2,018	200
Engineering	1,502	1,699	(197)
DSF TOTAL	\$ 5,683	\$ 5,763	\$ (80)