



City of Chula Vista
Quarterly Financial Report – General Fund
First Quarter Ending September 30, 2007

October 29, 2007

OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through September 30, 2007. 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

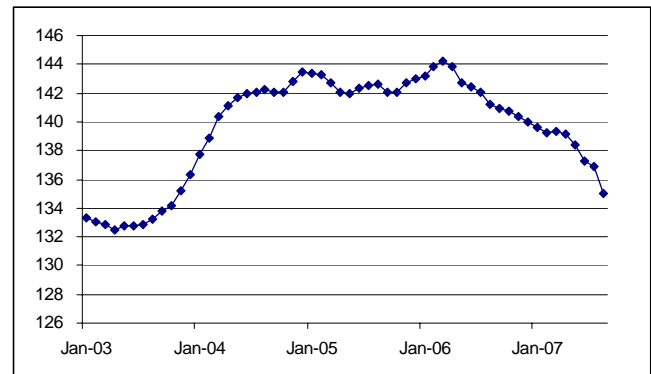
In its third quarterly report of 2007, the UCLA Anderson Forecast remains consistent in its assertion that the national economy is not technically in a recession, though the group's economists are calling current conditions "a near recession experience". A recession is defined as a two consecutive quarter decline in real Gross Domestic Product (GDP) and the UCLA Anderson Forecast is calling for real GDP growth to be just above 1% for the fourth quarter of 2007 and the first quarter of 2008.

In California, there has been substantial job loss in the real estate-related sectors and sluggish growth throughout the State's economy, with unemployment and mortgage defaults on the rise. Similar to the national forecast, the dismal data is not expected to result in a recession, as there are some entries on the positive side of the ledger; for example, despite losses in real estate, overall job growth was strong through the first quarter of 2007.

The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 1.4 percent in August. All six components in the Index were down for the month. The way the Index is calibrated, any monthly change higher than one percent is considered a large change. Using those criteria, there were big drops in initial claims for unemployment insurance, local stock prices, consumer confidence, help wanted advertising, and the outlook for the national economy. The building permits component performed the best, but was still down moderately

August's drop was the 16th time that the USD Index of Leading Economic Indicators has fallen in the last 17 months. The last time that all six components were down in a month was in April and May of 2006. But the magnitudes of the changes back then were not as severe as this month's changes. The outlook for the local economy continues to be weak at least through the first half of 2008. An outright downturn is not expected, but the possibility of a recession in the local economy is at its highest point in years.

San Diego Index of Leading Economic Indicators



Source: University of San Diego

Local consumer confidence fell to its lowest level since October 2003. Negative news about problems with sub prime loans and foreclosures were the likely cause of the drop. A positive development was the Federal Reserve following up its recent cut in the discount rate with a cut in the federal funds rate. It will likely take further cuts in both rates to boost the national economy in the wake of the slump in the housing market.

GENERAL FUND

City Council Policy No 220-03 recommends the City maintain at least an 8% reserve level. As of June 30, 2007, the General Fund reserve level is 6.3% (unaudited)

General Fund Reserve	Budget	Projected
Reserves - July 1, 2007	\$ 10.4	\$ 10.4
Projected Revenues & Transfers In	164.9	156.2
Expenditures & Transfers Out	(164.9)	(163.6)
Fund Balance as of June 30, 2008	\$ 10.40	\$ 3.0
Percentage of Operating Budget	6.3%	1.8%

Note: Projected expenditures do not reflect the budget reduction plan.

For fiscal year 2007-08, due to the slowdown in the economy and housing development several revenues have been adjusted downward by a total of \$8.6 million or 5% of total budgeted revenues. Offsetting some of the revenue shortfalls are anticipated salary savings of approximately \$1.2 million due to the hiring freeze imposed at the beginning of the current fiscal year. Taking this into account we are projecting a current year budgetary shortfall of approximately \$7.4 million.

With the approval of the two-year service credit and the City Manager’s proposed budget adjustments it is anticipated that the Chula Vista budget gap will be largely mitigated. Otherwise, the General Fund reserve will drop to \$3.0 million or 1.8% without the proposed changes. An update on the budget gap will be provided in the Second Quarter Financial Report along with the updated Five Year Forecast Report.

Revenues

FY 2007-08 Revised Revenue Projections

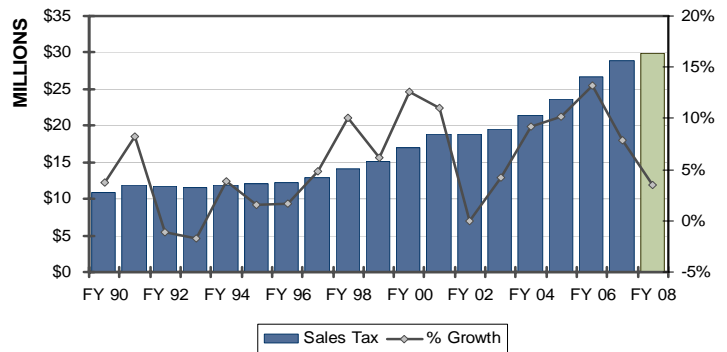
Revenue	Budget	Projected	Delta
Sales Tax	\$35.1	\$29.9	(\$5.2)
Motor Vehicle License Fee	19.4	19.7	0.3
Franchise Fees	10.4	8.8	(1.6)
Utility Users Tax	6.7	7.1	0.4
Real Property Transfer Tax	2.0	1.0	(1.0)
Building Permits	3.5	2.5	(1.0)
Plan Check Fees	1.8	1.7	(0.1)
Miscellaneous	2.2	1.8	(0.4)
Total	\$81.1	\$72.5	(\$8.6)

A brief discussion of each of the revised revenues will follow.

Sales Tax. City staff met with the City’s sales tax consultant, MuniServices, to review sales tax revenues though second quarter of 2007. Per the consultant, California experienced slower growth during the year ending second quarter 2007 than the year ending second quarter 2006. Sales tax growth statewide was 0.7% and in Southern California 0.0%.

Overall, the City’s sales tax revenues increased by 6.9% for the same quarter over quarter comparison.

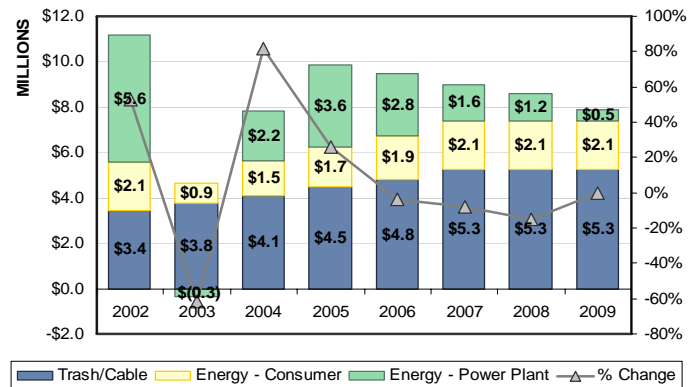
The City’s sales tax growth still remains more robust than that of the rest of the state and region but is not projected to grow as much as anticipated. The projected amount represents a 3.5% increase over the prior year actuals, which represents MuniServices “most likely” scenario.



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 FY05-06 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 a better than expected increase in the city’s assessed values receipts are projected to be \$300,000 higher than budget.

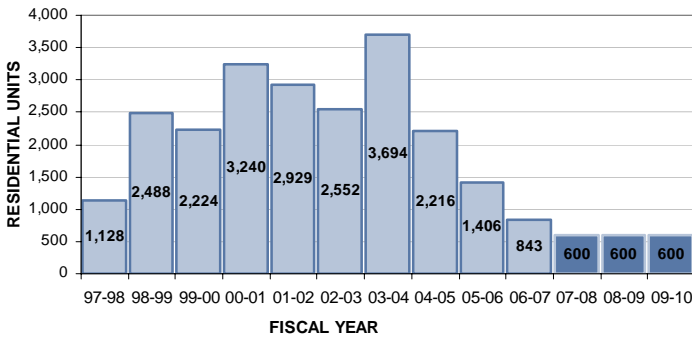
Franchise Fees. An analysis of prior fiscal year Franchise Fees revealed that revenues were down by \$1.2 million due to the reduced operation of the South Bay power plant. As a result, revenues for the current fiscal year have been revised downwards by \$1.6 million.



Utility Users Tax (UUT). Revenues are projected to come in higher than budget by \$368,877 due to higher actual revenues realized in the prior fiscal year.

Real Property Transfer Tax. This tax is based on the sale of real property. A revision in the projected tax is warranted due to the current slowdown in the housing market. The tax is projected to be \$1.0 million which is a significant reduction in revenue from the all time high of \$2.4 million in fiscal year 2005.

Plan Check Fees. The revised projection to \$1.7 million reflects the change in the projected number of building permits to be issued from 1,200 to 600 for the current fiscal year.



Building Permits. The revised projection to \$2.5 million reflects the revised projected number of building permits to be issued from 1,200 to 600 for the current fiscal year. Through the end of the first quarter 33 permits have been issued.

Other Development Related Revenues. The Finance department has recently received first quarter projections from the department analysts and there appears to be an additional \$600,000 to \$800,000 shortfall in development related revenues. These shortfalls are still being reviewed. Based on preliminary discussions with the affected departments the shortfalls may be mitigated through yet to be identified savings.

Miscellaneous Revenue. These revenues are being adjusted downward by \$400,000 due to the anticipated delays in receiving the origination fee from a pending Community Facility District bond issuance.

Expenditures

Expenditures	Budget	YTD Actual	% Expended
City Council	1,548,612	298,859	19.3%
Boards and Commissions	14,736	4,580	31.1%
City Clerk	1,210,504	258,728	21.4%
City Attorney	2,670,327	537,104	20.1%
Administration	3,419,361	964,737	28.2%
Information Technology Services	4,178,487	1,249,839	29.9%
Human Resources	4,663,381	1,649,836	35.4%
Finance	3,184,409	729,293	22.9%
General Services	11,172,284	2,694,731	24.1%
Community Development	1,931,656	440,615	22.8%
Planning and Building Services	9,751,885	2,218,861	22.8%
Engineering	6,698,275	1,475,058	22.0%
Public Works	18,102,693	4,472,165	24.7%
Police	50,673,395	11,293,682	22.3%
Fire	24,931,580	5,515,017	22.1%
Recreation	6,656,225	1,555,919	23.4%
Library	9,963,048	2,203,410	22.1%
Nature Center	1,260,105	340,752	27.0%
Total Expenditures	162,030,963	37,903,186	23.4%

Departmental operating costs are at 23.4% at the close of the first quarter. This is lower in comparison to the prior year first quarter expenditures of 24.8%. As previously mentioned there are anticipated budgetary savings of approximately \$1.2 million due to the hiring freeze imposed by the City Manager at the beginning of the fiscal year.

Mid-Year Budget Amendments

Mid-year appropriations during the quarter totaled \$241,437 with offsetting revenues of \$309,932 for a net positive impact of \$68,495. The majority of the appropriations were for grants or donations which had offsetting revenues. Additional revenues were budgeted for staff time reimbursements related to Community Facility District 12-M. The expenditures had already been included in the base budget.

Budget Amendments	Revenue	Expenditure	Impact
Animal Care microchipping program	10,000	10,000	-
CFD 12-M funds for landscape maintenance	63,495	-	63,495
Donation to Animal Care Facility from TAVA	2,522	2,522	-
Scripps Health Community benefit grant	39,800	39,800	-
Stephen & Mary Birch donation to Fire Dept	28,515	28,515	-
California Division of Recycling grant	5,000	-	5,000
Office of Traffic Safety DUI Enforcement grant	160,600	160,600	-
First Quarter Budget Amendments	309,932	241,437	68,495

Budget Transfers

There was one administrative budget transfer of \$2,193 during the first quarter. The transfer from the City Clerk's Services and Supplies budget category to the Capital category was necessary to purchase the equipment required for the Passport Services that began in October.