



City of Chula Vista

Legislation Details (With Text)

File #: 15-0692 **Name:**
Type: Consent Item **Status:** Passed
In control: City Council
On agenda: 2/23/2016 **Final action:** 2/23/2016
Title: A. QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDING December 31, 2015
B. RESOLUTION NO. 2016-028 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2015/16 BUDGET TO ADJUST FOR VARIANCES AND APPROPRIATING FUNDS THEREFOR (4/5 VOTE REQUIRED)

Sponsors:

Indexes:

Code sections:

Attachments: 1. Item 2 - Attachment 1 - Q2 FY16 Financial Report.pdf, 2. Item 2 - Resolution

Date	Ver.	Action By	Action	Result
2/23/2016	1	City Council	approved	Pass

A. QUARTERLY FINANCIAL REPORT FOR THE QUARTER ENDING DECEMBER 31, 2015

B. RESOLUTION NO. 2016-028 OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2015/16 BUDGET TO ADJUST FOR VARIANCES AND APPROPRIATING FUNDS THEREFOR (4/5 VOTE REQUIRED)

RECOMMENDED ACTION

Council accept the report and adopt the resolution.

SUMMARY

The Finance Department prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes. The quarterly financial reports are in compliance with Section 504 (f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

In preparing the quarterly financial projections, staff has identified various budget changes that are needed to better reflect actual revenues and expenditures or address changes in budgetary needs. For government entities, a budget creates a legal framework for spending during the fiscal year. After the budget is approved there are circumstances, which arise that could require adjustments to the approved budget. Council Policy 220-02 “Financial Reporting and Transfer Authority” was established in January of 1996 and allows for budget transfers to be completed. This report discusses budget adjustments that staff recommends in the General Fund as well as various other funds.

ENVIRONMENTAL REVIEW

The Development Services Director has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that filing of the quarterly financial status report is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change to the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the actions proposed are not subject to CEQA.

Environmental Notice

The activity is not a “Project” as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

BOARD/COMMISSION RECOMMENDATION

Not applicable.

DISCUSSION

The Finance Department prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes. The quarterly financial reports are in compliance with Section 504 (f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

General Fund Overview

Attachment A - Quarterly Financial Report provides the financial outlook for the General Fund for the current fiscal year and includes summary information for revenues and expenditures.

The following chart summarizes the projections for June 30, 2016 based on the revenue and expenditure trends through the second quarter of fiscal year 2015/16 for the City’s General Fund. The amended budget column includes all Council approved changes to the fiscal year 2015/16 adopted budget that have taken place through the end of the second quarter ending December 31, 2015. The projected column lists the fiscal year 2015/16 projections for revenues and expenditures as of June 30, 2016. The following table reflects the audited General Fund reserves as of July 1, 2015 (beginning fund balance) as well as the projected General Fund reserves for June 30, 2016 (projected ending fund balance).

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2015 (audited)	\$ 16.30	\$ 16.30
Revenues & Transfers In ¹	\$ 141.87	\$ 140.87
Expenditures & Transfers Out ²	\$ (141.81)	\$ (141.03)
Pending Appropriations ³	\$ -	\$ (0.60)
Projected Surplus/Deficit	\$ 0.06	\$ (0.76)
Projected Fund Balance for June 30, 2016	\$ 16.36	\$ 15.54
Percentage of Operating Budget	11.5%	11.0%

General Fund Summary

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund. The budgeted surplus reflected in the Amended Budget column is a result of mid-year Council approved budget amendments that have resulted a minor surplus of revenues over expenditures.
2. The Amended Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$5.3 million that were carried forward into the fiscal year 2015/16 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2015 and are therefore not included in the above table.
3. Pending appropriations reflect transfers from the General Fund to the Workers Compensation Fund and Developments Services Fund. Claims activity in the Workers Compensation Fund has resulted in higher than expected total claims payouts for the year. Increased development activity supports the need for additional plan check consulting services within the Development Services Fund. Accordingly, these costs are reflected in the amounts for pending appropriations. While these appropriations are outside of the reporting period, staff is including them in the report to better reflect projected expenditures for fiscal year 2016.

The City's financial outlook appears moderately negative through the end of the second quarter. Revenues are projected to decrease modestly from the amended budget level based on updated assumptions for fiscal year 2015 actuals and trends in the second quarter. Major factors affecting expenditures include pending appropriations to the Workers Compensation Fund and a transfer to the Development Services Fund for unanticipated expenses. The General Fund is projected to end the fiscal year with an estimated decrease in fund balance of \$0.76 million.

The City's discretionary revenues are in large part projected to meet or exceed their budgeted levels. Departmental program revenues however are anticipated to fall short of their targets. Particularly Police jail reimbursements and grant revenue, as well as Fire permit and reimbursement revenue are not projected to meet the budgeted level. Overall, General Fund revenues are projected at \$1.0 million below the current amended budget. This is due to projected shortfalls in the following revenue categories: Charges for Services (\$0.9 million), Revenue from Other Agencies (\$0.3 million), Transfers In (\$0.2 million), Licenses and Permits (\$0.1 million), and Fines, Forfeitures, and Penalties (\$0.1 million). These shortfalls were partially offset with improvements in the Other Local Taxes category of \$0.6 million. The projected fluctuations for these revenues are based on a review of previous fiscal year actuals, an analysis of actuals through December 31, 2015, and revised assumptions since the first quarter projections.

There are no variances to report for expenditures projected as of the end of the second quarter. Departmental expenditures are tracking within budgeted levels as the majority of the departments are projected to realize savings as of the end of the fiscal year. As stated in the first quarter report, salary savings levels are not projected to be achieved based on the current trend. This is primarily due lower than anticipated employee attrition rates. Salary savings are currently budgeted at \$1.6 million in the General Fund reflecting staff's first quarter recommendation to recognize the savings voluntary work furlough program and health insurance savings costs and apply these savings to reduce the budgeted salary savings in the Non-Departmental budget. Staff will continue to monitor salary savings levels and look for other potential cost saving measures in order to remain within budget.

Working with the City's Sales Tax Consultant's, HdL, staff has identified one-time revenues the City will receive as a result of the end of the triple flip. These revenues will help address expenditures for

major projects that were not included in the fiscal year 2015-16 adopted budget, but will likely require funding in the current fiscal year. A portion of the triple flip revenues have already been appropriated towards outside attorney services related to outstanding litigation. Staff will return to Council to make a recommendation on the allocation of those funds to address funding needs once the impact of the triple flip and remaining sales tax revenues are determined during the 3rd quarter sales tax review.

Development Services Fund Overview

The Development Services Department Enterprise fund consists of Land Development, Development Planning, the DSF Front Counter and the Building Division. As of July 1, 2015 The Development Services Fund had accumulated a deficit of \$16.5 million. This is in contrast to what was previously reported in the fiscal year 2015 third quarter report, which projected the fund at a deficit of \$0.2 million. The variance is due to the implementation of Governmental Accounting Standards Board (GASB) Statement Nos. 68 and 71 requiring the accrual of net pension liabilities and the inclusion of compensated absences, which were formerly reported differently. If these liabilities are excluded from the calculation, as detailed in the table below, the projected reserves of the Development Services Fund was \$52,074, as of July 1, 2015.

Development Services Fund	Actuals
Total Net Position - July 1, 2015	(16,492,076)
Net Pension Contributions/Liabilities	16,164,018
Compensated Absences	380,132
Reserves - July 1, 2015	52,074

Comparing the budgeted revenue and expenditures to the projected revenues and expenditures for June 30, 2016, expenditures are currently on trend to exceed revenues. Although expenditures are projected to be under the current amended budgeted level, revenues are tracking at a much lower rate than anticipated. Based on trends through the second quarter, staff is conservatively projecting to end the current fiscal year with a projected deficit of \$0.7 million, which would put the Development Services Fund in an overall deficit (excluding the deficit caused by GASB 68 and 71 and compensated absences). Projections for the last fiscal year indicated a similar trend. Staff will be proposing adjustments to eliminate the deficit and mitigate any future impacts to the Development Services Fund.

Development Services Fund Summary

Development Services Fund	Amended Budget	Projected
Reserves - July 1, 2015	52,074	52,074
Revenues & Transfers In	7,303,694	6,665,560
Expenditures & Transfers Out	(7,424,953)	(7,382,890)
Projected Surplus/Deficit	(121,259)	(717,330)
Projected Fund Balance for June 30, 2016	(69,185)	(665,256)

It is important to note that the nature of the work in the enterprise fund is beginning to change from one of processing planning documents (deposit account based) to one of processing building and improvement plans (flat fee based). This change in activity may require modification to the existing

composition of staff in Development Services Fund in order to remain responsive to the type and quantity of work being processed.

Staff is recommending budget amendments in the City Council, Non-Departmental, Public Works and Library departments. These changes result in no net fiscal impact to the General Fund.

City Council - The Mayor's Office has received a sponsorship in the amount of \$3,200 from the World Wildlife Fund to offset the costs of attending the United Nations Paris Climate Conference. Staff is requesting that this sponsorship be appropriated to the Supplies and Services expense category of the City Council budget.

Non-Departmental - Staff is recommending the following budget adjustments to the Non-Departmental budget:

- Staff is requesting a \$53,000 appropriation to the Supplies and Services expense category of the Non-Departmental Budget to offset contracted attorney services costs. The City has received revenue in the amount of \$25,756 in reimbursement for a legal case involving the City and a business operator to offset these costs. The balance of the appropriated amount will be offset by other unanticipated revenues.
- An appropriation of \$377,487 is requested to the Supplies and Services category of the Non-Departmental budget. This request is for the financing of a capital lease for the procurement of 99 Mobile Data Computers (MDCs) for use in Police vehicles and facilities. This appropriation will be offset by revenues of an equal amount derived from the secured lease financing of the MDCs.
- A transfer of \$503,346 from the General Fund to the Workers Compensation Fund. This transfer is needed as a result of the City recently reaching a settlement in a Workers Compensation related case that has a net fiscal impact of \$503,346. The available reserves in the Workers Compensation Fund are insufficient to address both this settlement and the unanticipated increase in Workers Compensation claim expenses. The requested appropriation may result in an impact to the General Fund reserves if offsetting revenues or expenditure savings are not identified.
- Staff is requesting a \$100,000 appropriation to the Transfers Out category of the Non-Departmental Budget to offset contracted services for processing planning building and improvement plans. The requested appropriation may result in an impact to the General Fund reserves if offsetting revenues or expenditure savings are not identified.

Public Works - The following budget amendments are recommended for the Public Works Department:

- A \$27,200 transfer to the Other Expenses category of the Public Works budget is recommended for the repair and replacement of traffic operation equipment due to vehicle accidents. The requested repairs and replacement of traffic operation equipment is vital to

traffic safety. This transfer will be offset by a reduction in Personnel Services.

- A transfer of \$135,000 to the Supplies and Services budget category of the Construction & Repair Budget for unanticipated facility emergencies and CAL OSHA fines. This transfer will be made from the water Utilities budget that is projecting savings in the current fiscal year due to the Governor's State drought mandate that has resulted in lower water usage.
- An appropriation of \$6,784 funded by revenue received from recycled copper used for HVAC and electrical systems to the Supplies and Services expense category. The funds will be appropriated to the Construction & Repair Budget for unanticipated facility preventative maintenance repairs.

Library - Library has received several donations from the Chula Vista Woman's Club, Connie Fey (in memory of Jackie Fey Lindensmith), and Esther & Dennis Pearson (in memory of Barbara Palmer). The donations totaling \$925 will help fund books for the Library's collection. The Library department is requesting that the donations be appropriated to the Supplies and Services expense category of the Library Department.

Development Services Fund - Due to an increase in activity for processing building and improvement plans, staff is requesting an appropriation of \$100,000 to the Supplies and Services expenditure category of the Development Services Fund. This appropriation will be offset by a Transfer In from the General Fund. Development Services has also experienced a sharp increase in the use of credit cards as a form of payment. As a result, the Department has exceeded the budget for credit card transaction fees and is requesting a transfer of \$150,000 from Personnel Services to the Other Expenses category for these increased expenditures.

State Grants Fund - The Library has received the first installment of the California Library Literacy Services (CLLS) grant in the amount of \$18,000. Staff is requesting the CLLS grant (\$18,000) be appropriated to the Personnel Services expense category of the State Grants Fund.

Workers Compensation Fund - Staff is requesting an appropriation of \$2.1 million to the Workers Compensation Fund. These funds are needed due to two settlements that were not included in the fiscal year 2015-16 budget and higher than anticipated claim expenses. This appropriation will be partially offset by \$666,654 from insurance reimbursement revenues and a transfer of \$503,346 from the General Fund. The remaining funds will be appropriated from the available reserves of the Workers Compensation Fund. The actual fiscal impact of this appropriation will be determined by the actual expenditures in the Workers Compensation fund at year end.

Transportation Sales Tax (TransNet) Fund - Capital Improvement Project OP218 - Cactus Wren Habitat Restoration was funded by a SANDAG Grant within the Transportation Sales Tax Fund. All eligible capital improvement costs for OP218 have been incurred and reimbursed; however an overpayment in the amount of \$2,615 was received from SANDAG and posted to the TransNet Fund in error. Staff is requesting an appropriation of \$2,615 to the Other Expenses category to be made from the available balance of the TransNet Fund in order to refund the overpayment amount to SANDAG.

DECISION-MAKER CONFLICT

Staff has reviewed the decision contemplated by this action and has determined that it is not site specific and consequently, the 500-foot rule found in California Code of Regulations Title 2, section 18702.2(a)(11), is not applicable to this decision for purposes of determining a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, et seq.). Staff is not independently aware, and has not been informed by any City of Chula Vista City Council member, of any other fact that may constitute a basis for a decision maker conflict of interest in this matter.

LINK TO STRATEGIC GOALS

The City’s Strategic Plan has five major goals: Operational Excellence, Economic Vitality, Healthy Community, Strong and Secure Neighborhoods and a Connected Community. This action supports the Operational Excellence goal by communicating the City’s projected financial position for the current fiscal year in an open and transparent manner. This transparency supports City Initiative 1.3.1. - “Foster public trust through an open and ethical government.”

CURRENT YEAR FISCAL IMPACT

There is no fiscal impact resulting from accepting the Quarterly Financial Report.

General Fund - Approval of the resolution amending the fiscal year 2015/16 budget will result in the following appropriations to the General Fund.

DEPARTMENT/FUND	DESCRIPTION	EXPENSE	REVENUE	NET COST
GENERAL FUND				
City Council	World Wildlife Fund Donation for Paris Climate Conference	\$ 3,200	\$ 3,200	\$ -
Non-Departmental	Bay and E St. Attorney Svcs. Revenue Appropriation	\$ 53,000	\$ 53,000	\$ -
	Mobile Data Computer Capital Asset Leasing Finance	\$ 377,487	\$ 377,487	\$ -
	Workers Compensation Fund Augmentation for Increased Claims	\$ 503,346	\$ -	\$ 503,346
	Transfer to Development Services Fund for Increased Plan Processing Costs	\$ 100,000	\$ -	\$ 100,000
Public Works	Personnel Svcs. Transfer to Other Expenses for Traffic Signal Repair \$27,200	\$ -	\$ -	\$ -
	Public Works Scrap Metal Revenue Appropriation for Preventative Maintenance \$6,784	\$ 6,784	\$ 6,784	\$ -
	Public Works Transfer from Utilities to Supplies and Services.	\$ -	\$ -	\$ -
Library	Library Donations from Various Sources for Books	\$ 925	\$ 925	\$ -
	TOTAL GENERAL FUND	\$ 1,044,742	\$ 441,396	\$ 603,346

The recommended changes in the General Fund may result in a \$603,346 net impact to General Fund reserves if offsetting revenues or expenditure savings are not identified. As mentioned in this report, the City will receive one-time revenues as a result of the end of the sales tax triple flip which may be available to offset this net impact. Additional information will be provided as part of the third quarter financial report.

Other Funds - Approval of the resolution amending the fiscal year 2015/16 budget will result in the following appropriations. The resulting fiscal impacts to various funds are also listed in the following table:

OTHER FUNDS	DESCRIPTION	EXPENSE	REVENUE	NET COST
State Grants Fund	Library CLLS Grant for Literacy Programs	\$ 18,000	\$ 18,000	\$ -
Workers Compensation	Workers Compensation Fund Augmentation for Increased Claims Costs	\$ 2,100,000	\$ 1,170,000	\$ 930,000
Development Services Fund	Credit Card Transaction Fees Transfer from Personnel Services \$150,000.	\$ -	\$ -	\$ -
	Transfer from General Fund for Increased Plan Processing Costs	\$ 100,000	\$ 100,000	\$ -
Tranсет Fund	Appropriation for SANDAG refund for Catus Wren Habitat Project	\$ 2,615	\$ -	\$ 2,615
	TOTAL OTHER FUNDS	2,220,615	1,288,000	932,615

The recommended budget amendments will not impact the State Grants Fund and the Development Services Fund. The appropriations to the Workers Compensation Fund will result in a \$930,000 impact that will be funded by the available balance of this fund. The appropriation to the Transnet Fund will also be funded by the available balance of this fund.

ONGOING FISCAL IMPACT

Staff will continue to monitor and analyze revenue and expenditure trends and incorporate changes as necessary into future financial reports and/or budgets.

ATTACHMENT

- 1. Second Quarter Financial Report
Staff Contact: David Bilby, Finance Department

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CHULA VISTA MAKING VARIOUS AMENDMENTS TO THE FISCAL YEAR 2015/16 BUDGET TO ADJUST FOR VARIANCES AND APPROPRIATING FUNDS THEREFOR

WHEREAS, the City Charter states that at any meeting after the adoption of the budget, the City Council may amend or supplement the budget by motion adopted by the affirmative votes of at least four members; and

WHEREAS, staff has completed the budget review for the quarter ending December 31, 2015 and is recommending a number of budget amendments; and

WHEREAS, staff is recommending approximately \$1.0 million in new appropriations to various departments in the General Fund that will be offset by \$0.4 million in new revenues resulting in an impact of \$0.6 million; and

WHEREAS, the recommended appropriations in the General Fund include a \$0.5 million transfer to the Workers Compensation Fund to fund settlements not included in the fiscal year 2016 budget and also include a \$0.1 million transfer to the Development Services Fund for building and improvement plan processing due to increased activity; and

WHEREAS, the appropriations to the State Grants Fund and the Development Services Fund are revenue offset resulting in no net fiscal impact to these funds; and

WHEREAS, the appropriation in the Workers Compensation Fund is not fully revenue offset and will result in a net impact of \$0.9 million that will be funded from the available balance of this fund; and

WHEREAS, the appropriation of \$2,615 to the Transportation Sales Tax (TransNet) Fund is excess revenue received from SANDAG to fund capital improvement project OP218 for Cactus Wren Habitat Restoration that needs to be refunded to SANDAG as this projected has been completed.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Chula Vista that it amends the fiscal year 2015/16 budget and approves the following appropriations/transfers:

DEPARTMENT/FUND	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	TRANSFERS OUT	UTILITIES	TOTAL EXPENSE	TOTAL REVENUE	NET COST
City Council	\$ -	\$ 3,200	\$ -	\$ -	\$ -	\$ 3,200	\$ 3,200	\$ -
Non-Departmental	\$ -	\$ 430,487		\$ 603,346	\$ -	\$ 1,033,833	\$ 430,487	\$ 603,346
Public Works	\$ (27,200)	\$ 141,784	\$ 27,200		\$ (135,000)	\$ 6,784	\$ 6,784	\$ -
Library	\$ -	\$ 925	\$ -	\$ -	\$ -	\$ 925	\$ 925	\$ -
TOTAL GENERAL FUND	\$ (27,200)	\$ 576,396	\$ 27,200	\$ 603,346	\$ (135,000)	\$ 1,044,742	\$ 441,396	\$ 603,346
OTHER FUNDS								
Transp Sales Tax Fund	\$ -	\$ -	\$ 2,615	\$ -	\$ -	\$ 2,615		\$ 2,615
State Grants Fund	\$ 18,000	\$ -	\$ -	\$ -	\$ -	\$ 18,000	\$ 18,000	
Workers Compensation	\$ -	\$ -	\$ 2,100,000	\$ -	\$ -	\$ 2,100,000	\$ 1,170,000	\$ 930,000
Development Services Fund	\$ (150,000)	\$ 100,000	\$ 150,000	\$ -	\$ -	\$ 100,000	\$ 100,000	
TOTAL OTHER FUNDS	\$ (132,000)	\$ 100,000	\$ 2,252,615	\$ -	\$ -	\$ 2,220,615	\$ 1,288,000	\$ 932,615
TOTAL BUDGET AMENDMENTS	\$ (159,200)	\$ 676,396	\$ 2,279,815	\$ 603,346	\$ (135,000)	\$ 3,265,357	\$ 1,729,396	\$ 1,535,961

Presented by

Approved as to form by

David Bilby
Director of Finance/Treasurer

Glen R. Googins
City Attorney

OVERVIEW

This financial report summarizes the City's General Fund financial position for fiscal year 2016 through December 31, 2015 and projecting out to June 30, 2016. 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.

ECONOMIC UPDATE

The National Forecast¹ - In the December report, Senior Economist David Shulman forecasts ongoing job growth and expected wage increases will drive consumption in 2016 leading to the first year of greater than 3.0% growth in real GDP since 2005. The higher wages, along with a modest rebound in oil prices and higher housing costs, will push the inflation rate above 2.0%. Schulman also states that the Federal Reserve "is about to get the inflation it has been waiting for," leading the Fed to begin a gradual tightening cycle beginning this month. Economic strength will be found in housing and commercial construction along with a booming automobile market. The collapse in oil-related capital spending will come to an end next year and defense spending will be increasing after five years of decline.

The California Forecast² - In the California forecast, Senior Economist Jerry Nickelsburg examines the economic sectors that differentiate California from the other states. These include: trade through California's ports, international arrivals at LAX and SFO, state government finances, residential construction and employment. Nickelsburg cites data that indicate ongoing growth for California based on: port activity in September that was at a historically high level; international passenger arrivals at LAX and SFO reaching record numbers over the past year; a (shallow) upward trend in sales taxes (which are still below the pre-recession peak when adjusting for inflation); continued growth in residential construction; and impressive gains in California employment. The forecast calls for a 2015 total employment growth of 2.6% and for 2016 and 2017 the forecast is for 2.1% and 1.4%. Payrolls will grow more at about the same rate. Real personal income growth is estimated to be 4.3% in 2015 and forecast to be 3.4% and 3.2% in 2016 and 2017, respectively.

¹Source: UCLA Anderson Forecast, December 2015

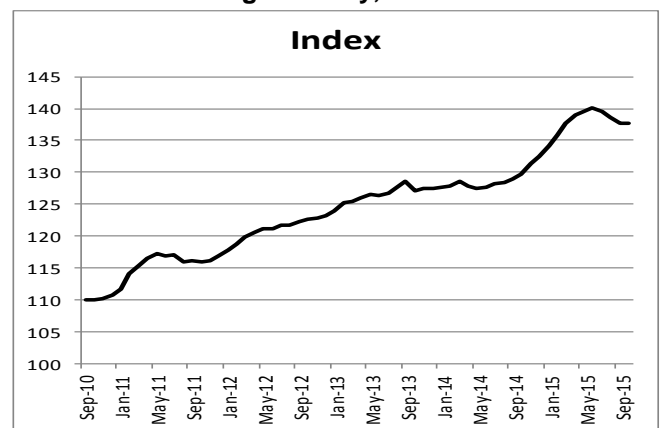
²Source: UCLA Anderson Forecast, December 2015

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County was unchanged in October. Only two of the components were positive, with the outlook for the national economy up sharply and consumer confidence up modestly. This was enough to offset the four negative components. While local stock prices took a big dip and building permits were down moderately, there were only minor drops in initial claims for unemployment insurance and help wanted advertising.

The unchanged reading in October stopped a stretch where the USD Index had fallen for three consecutive months. As was mentioned previous monthly reporting, three moves in a single direction in a leading index is what economists usually look for as a signal of a turning point in an economy. That the drop has been stopped at three months is encouraging and could suggest that a slowdown in the local economy in the coming year might be limited.

One positive development recently has been the fall in gas prices. The price of gasoline is down more than 30 cents a gallon compared to this time last year and down about \$1.50 a gallon compared to the peak in July. Every cent a gallon that the price falls adds a million dollars a month to the local economy, as consumers can spend that money on other things besides filling their tanks. The drops mean an extra \$30+ million per month in consumers' pockets compared to last year and an extra \$150 million per month compared to July.

**San Diego Index of Leading Economic Indicators
San Diego County, 2010 - 2015**



³Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 2015; retrieved from URL: <http://home.sandiego.edu/~agin/usdle/index.html>

GENERAL FUND SUMMARY

General Fund Reserves - The General Fund Reserve policy was established to ensure that the City's finances are managed in a manner which will:

1. Continue to provide for the delivery of quality services
2. Maintain and enhance service delivery as the community grows in accordance with the General Plan
3. Minimize or eliminate the need to raise taxes and fees because of temporary revenue shortfalls
4. Establish the reserves necessary to meet known and unknown future obligations and ability to respond to unexpected opportunities.

The following table reflects the audited General Fund reserves as of June 30, 2015 as well as the projected General Fund reserves for June 30, 2016.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2015 (audited)	\$ 16.30	\$ 16.30
Revenues & Transfers In ¹	\$ 141.87	\$ 140.87
Expenditures & Transfers Out ²	\$ (141.81)	\$ (141.03)
Pending Appropriations ³	\$ -	\$ (0.60)
Projected Surplus/Deficit	\$ 0.06	\$ (0.76)
Projected Fund Balance for June 30, 2016	\$ 16.36	\$ 15.54
Percentage of Operating Budget	11.5%	11.0%

Notes:

1. The City Council Adopted budget was balanced and did not project an increase in fund balance for the General Fund.
2. The Amended Budget and projections reflected in this table do not include prior year appropriations for capital improvement projects and other encumbrances totaling \$5.3 million that were carried forward into the fiscal year 2015/16 budget. These expenditure impacts are already reflected in the estimated fund balance as of July 1, 2015 and are therefore not included in the above table.
3. Pending appropriations reflect a transfer from the General Fund to the Workers Compensation Fund of \$0.5 million in order to pay for two settlements that were not included in the fiscal year 2015-16 budget. An additional transfer of \$0.1 million from the General Fund is also proposed to offset increased planning costs due to processing of building improvement plans.

The City's financial outlook appears moderately negative through the end of the second quarter. Revenues are projected to decrease modestly from the amended budget level based on updated assumptions for fiscal year 2015 actuals and trends in the second quarter. Major factors affecting expenditures include pending appropriations to the Workers Compensation Fund and a transfer to the Development Services Fund for unanticipated expenses. The General Fund is

projected to end the fiscal year with an estimated decrease in fund balance of \$0.76 million.

The City's discretionary revenues are in large part projected to meet or exceed their budgeted levels. Departmental program revenues however are anticipated to fall short of their targets. Particularly Police jail reimbursements and grant revenue, as well as Fire permit and reimbursement revenue are not projected to meet the budgeted level. Overall, General Fund revenues are projected at \$1.0 million below the current amended budget. This is due to projected shortfalls in the following revenue categories: Charges for Services (\$0.9 million), Revenue from Other Agencies (\$0.3 million), Transfers In (\$0.2 million), Licenses and Permits (\$0.1 million), and Fines, Forfeitures, and Penalties (\$0.1 million). These shortfalls were partially offset with improvements in the Other Local Taxes category of \$0.6 million. The projected fluctuations for these revenues are based on a review of previous fiscal year actuals, an analysis of actuals through December 31, 2015, and revised assumptions since the first quarter projections.

Expenditures are projected slightly below budget as \$0.8 in savings is projected for the General Fund. Departmental expenditures are tracking within budgeted levels as all of the City's operating departments are projecting savings. Although departmental savings are projected, the overall budgeted salary savings levels are not projected to be achieved based on the current trend as reported in the first quarter. This is primarily due to lower than anticipated employee attrition rates. Salary savings are currently budgeted at \$1.6 million in the General Fund. Staff will continue to monitor salary savings levels and look for other potential cost saving measures in order to remain within budget.

Revenues

The following table compares the projected revenues included in the adopted budget and the updated revenue projections for discretionary and departmental program revenues. Overall, General Fund revenues are projected at \$1.0 million below the current amended budget. The major variances are as follows:

- A projected \$1.0 million decrease in Charges for Services revenues due to lower Police jail reimbursements.
- A \$0.4 million decrease in projected Utility User Tax based on the current fiscal year trend and reflecting previous fiscal year actual revenues.
- A \$0.3 million projected decrease in Revenue from Other Agencies due to lower grant revenues.
- A \$0.1 million projected decrease in Other Revenues from prior year revenues that are no longer anticipated to be received.
- A projected \$1.0 million increase in Transient Occupancy Taxes based on an improved growth trend and previous fiscal year collections.

General Fund Revenues

Category	Amended Budget as of 12/31/15	Q2 Projected 6/30/16	Variance
Property Taxes	\$ 30,052,206	\$ 30,052,206	\$ -
Sales Tax	\$ 25,493,204	\$ 25,493,204	\$ -
Sales Tax In Lieu	\$ 5,981,593	\$ 5,981,593	\$ -
Motor Vehicle License	\$ 18,887,001	\$ 18,934,512	\$ 47,511
Other Revenue	\$ 11,813,766	\$ 11,900,485	\$ 86,719
Transfers In	\$ 10,022,271	\$ 9,811,454	\$ (210,817)
Franchise	\$ 11,426,283	\$ 11,426,283	\$ -
Charges for Services	\$ 7,722,775	\$ 6,774,043	\$ (948,732)
Revenue from Other Agencies	\$ 2,700,917	\$ 2,380,309	\$ (320,608)
Utility Users Tax	\$ 6,500,000	\$ 6,129,589	\$ (370,411)
Transient Occupancy Taxes	\$ 2,890,853	\$ 3,819,554	\$ 928,701
Use of Money & Property	\$ 2,726,806	\$ 2,671,128	\$ (55,678)
Other Local Taxes	\$ 2,245,437	\$ 2,225,714	\$ (19,723)
Licenses and Permits	\$ 1,309,447	\$ 1,172,060	\$ (137,387)
Fines, Forfeitures, Penalties	\$ 1,133,800	\$ 1,074,694	\$ (59,106)
Real Property Transfer Tax	\$ 962,865	\$ 1,023,661	\$ 60,796
Total General Fund	\$ 141,869,224	\$ 140,870,489	\$ (998,735)

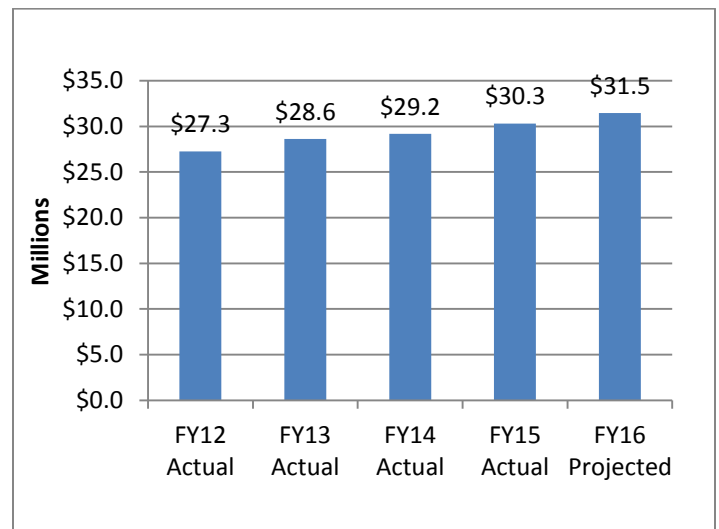
Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 22.3% of General Fund revenues in the fiscal year 2015/16 amended budget. HdL Companies, the City's Sales Tax consultant, has provided data for the third quarter of calendar year 2015. They report

that the change in sales tax receipts between third quarter calendar year 2014 and third quarter calendar year 2015 increased by 5.4% in Chula Vista. General Consumer Goods represents the largest major industry group for Sales Tax generation. In this category, the change in Sales Tax increased 3.2% in Chula Vista when compared to the same quarter for 2014. Other sectors that also increased included: Business and Industry 10%, Restaurants and Hotels 9% and Autos and Transportation 8%.

There is no change in the projection for Sales Tax revenues as they are assumed to be at the budgeted level as of the second quarter.

The following chart represents actual sales tax collections since fiscal year 2011/12 and the projection for fiscal year 2015/16.

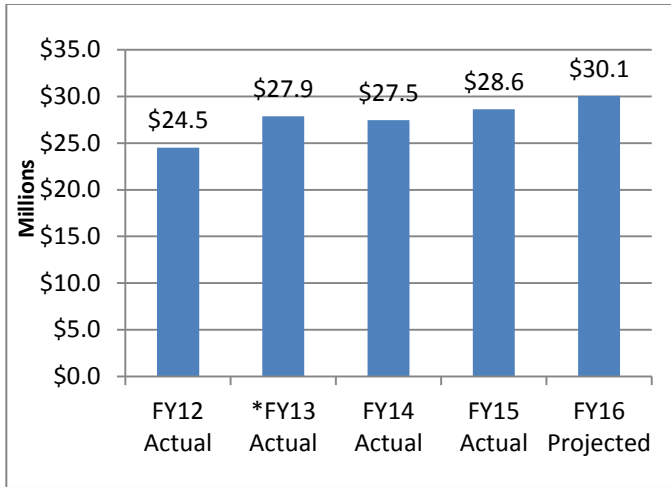
Sales Tax and Sales Tax in Lieu



Property Taxes - The City of Chula Vista receives property tax revenue based upon a 1.0% levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 21.3% of General Fund revenues in the fiscal year 2015/16 budget.

The Property tax revenue projection was increased by \$0.2 million in the first quarter to reflect the most recent information received from the County regarding projected growth for assessed property values (AV) for the City and a review of previous fiscal year actual property tax revenues. There is no change in the projection for property taxes for the second quarter.

Property Tax

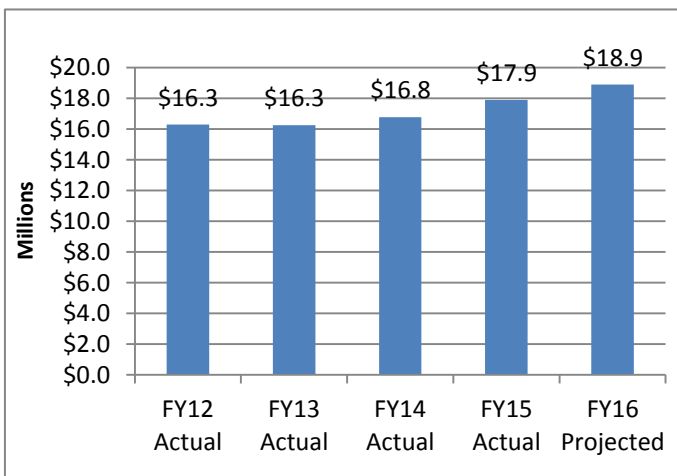


Motor Vehicle License Fee (VLF) – Since the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Beginning in 2005/06, the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross assessed valuation. Due to this change in the formula by the State, the majority of the City’s VLF revenues fluctuate with changes in assessed values in the City.

VLF revenue projections were revised to in the first quarter to reflect the change in the city-wide assessed valuation projection growth rate of 5.6% for fiscal year 2015-16 versus the 4% projected growth rate assumed in the adopted budget. The projection for VLF revenues is unchanged for the second quarter.

The following chart represents actual VLF revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16.

Motor Vehicle License Fee

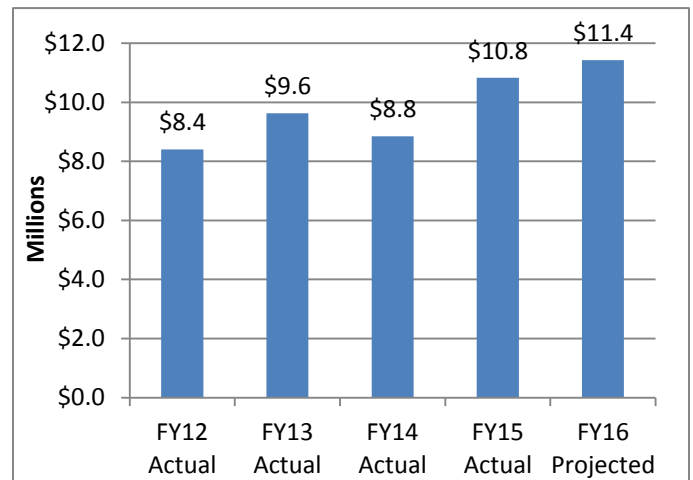


Franchise Fees - Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E collects the franchise fee from Chula Vista customers and remits these revenues to the City. Trash franchise fees and cable fees are based on fixed rates.

Franchise Fee revenues are projected to be realized at the budgeted level as of the end of the second quarter.

The following chart represents actual franchise fee revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16. Fiscal year actual 2012-13 revenues reflect previously accrued Franchise Fee revenues that were realized by the City.

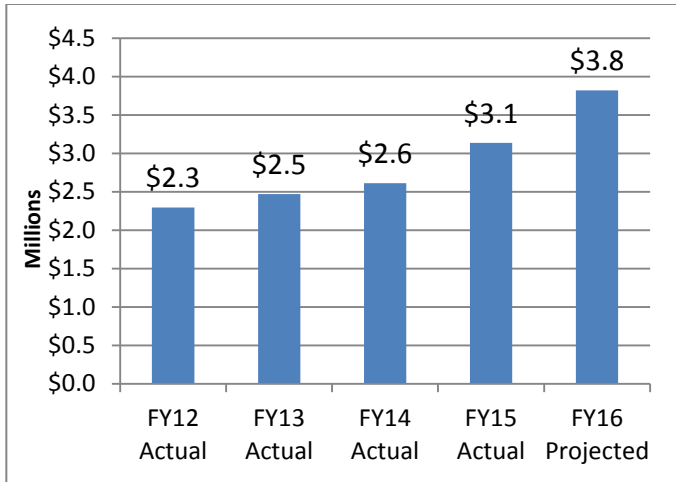
Franchise Fees



Transient Occupancy Tax (TOT) - The City receives 10% of hotel and motel room rates for stays less than 30 days. Projections for TOT revenues have been updated to reflect the positive trend that began in fiscal year 2012 and has subsequently continued. The projection for fiscal year 2015/16 has been increased by \$0.9 million when compared to the adopted budget. The projected increase consists of \$0.6 million attributed to the previous fiscal year’s growth trend, and \$0.3 million is due to previous fiscal year collections that were received the current fiscal year.

The following chart represents actual TOT revenues since fiscal year 2011/12 and the projection for fiscal year 2015/16.

Transient Occupancy Tax (TOT)

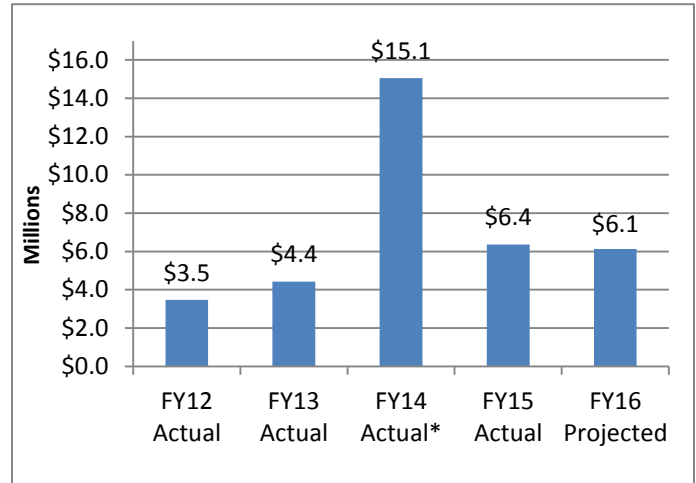


Utility Users Tax (UUT) - The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecom at the rate of 4.75% of gross receipts. The UUT on natural gas services is \$0.00919 per therm and \$0.00250 per kilowatt on electricity services, which equates to approximately a 1% tax.

The projection for UUT revenues has been reduced by \$0.4 million from the adopted budget. This decrease reflects the ongoing trend based on actual fiscal year 2014-15 UUT revenues. The downward trend is projected to continue to through fiscal year 2015-16 as UUT revenues are estimated to be under budget by \$0.6 million. This decrease is partially offset by \$0.2 million from realized prepaid wireless UUT revenues.

The following chart reflects actual UUT revenue since fiscal year 2011/12. Fiscal year 2015/16 is projected and does not reflect actual collections.

Utility Users Tax (UUT)



*Increased fiscal year 2013/14 Utility User's tax revenue reflect a mid-year appropriation (Council resolution 2013-092) of previously collected wireless telecommunication related tax revenue that was utilized to fund attorney and City administrative costs pertaining to a City class-action lawsuit.

Expenditures

The General Fund's amended budget reflects the Council adopted budget of \$139.8 million, Council approved mid-year appropriations of \$2.0 million, and \$5.3 million of prior year encumbrances that were carried over into the current fiscal year. As of the end of the First Quarter, the amended budget totals \$147.1 million.

The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2015. In total, Departments have expended 45% of the General Fund budget after 50% of the fiscal year has elapsed.

General Fund Expenditures as of 12/31/2015

Department	Amended Budget as of 9/30/15	Expended as of 12/30/15	% Expended
City Council	\$ 1,496,640	\$ 703,348	47%
Boards & Commissions	\$ 77,520	\$ 47,785	62%
City Clerk	\$ 942,667	\$ 386,107	41%
City Attorney	\$ 3,038,310	\$ 1,331,132	44%
Administration	\$ 3,375,975	\$ 1,517,080	45%
Information Tech Svcs	\$ 3,604,224	\$ 1,621,503	45%
Human Resources	\$ 2,600,103	\$ 1,239,279	48%
Finance	\$ 3,720,758	\$ 1,700,703	46%
Non-Departmental	\$ 10,915,453	\$ 2,316,808	21%
Animal Care Facility	\$ 2,988,449	\$ 1,319,928	44%
Dev Services (GF)	\$ 2,482,554	\$ 1,172,675	47%
Police	\$ 49,528,234	\$ 23,592,761	48%
Fire	\$ 26,838,645	\$ 13,224,281	49%
Public Works	\$ 27,353,014	\$ 12,354,747	45%
Recreation	\$ 4,332,469	\$ 1,877,176	43%
Library	\$ 3,844,407	\$ 1,820,903	47%
Total Expenditures	\$ 147,139,422	\$ 66,226,216	45%

The following table reflects the projected expenditures for June 30, 2016. As noted on the table, all of the operating departments are projecting to be within budget or realize savings in the current fiscal year. A \$1.3 million deficit is projected for the Non-Departmental budget due to budgeted salary savings levels that are not projected to be achieved based on the trend identified in the first quarter. In an effort to mitigate this short-fall, Council implemented staff's recommendation to decrease the salary savings level and offset it with savings from the voluntary work furlough program and health insurance savings costs as part of the budget adjustments approved in the first quarter.

Overall, General Fund expenditures are projected to be under budget by \$0.8 million in the current fiscal year.

For the second quarter, staff recommended budget adjustments include funding a \$0.5 million transfer from the General Fund to the Workers Compensation Fund. This transfer is needed as a result of the City recently reaching a settlement in a Workers Compensation related case. Staff is also recommending a \$0.1 million transfer from the General Fund to the Development Services Fund due to an increase in activity for processing building and improvement plans.

The net fiscal impact to the General Fund of these two adjustments is \$0.6 million. Both of these recommendations will be included in the Council staff report that accompanies this report.

Staff will continue to work to address these issues and mitigate potential impacts to the General Fund.

General Fund Projections by Department
for June 30, 2016

Department	Amended Budget as of 12/31/15	Q2 Projected 6/30/16	Variance
City Council	\$ 1,496,640	\$ 1,496,640	\$ -
Boards & Commissions	\$ 77,520	\$ 77,520	\$ -
City Clerk	\$ 942,667	\$ 897,096	\$ (45,571)
City Attorney	\$ 3,038,310	\$ 2,918,571	\$ (119,739)
Administration	\$ 3,375,975	\$ 3,257,727	\$ (118,248)
Information Tech Svcs	\$ 3,604,224	\$ 3,511,331	\$ (92,893)
Human Resources	\$ 2,600,103	\$ 2,556,989	\$ (43,114)
Finance	\$ 3,720,758	\$ 3,471,614	\$ (249,144)
Non-Departmental	\$ 10,915,453	\$ 12,213,388	\$ 1,297,935
Animal Care Facility	\$ 2,988,449	\$ 2,965,435	\$ (23,014)
Dev Services (GF)	\$ 2,482,554	\$ 2,450,529	\$ (32,025)
Police	\$ 49,528,234	\$ 48,690,597	\$ (837,637)
Fire	\$ 26,838,645	\$ 26,873,233	\$ 34,588
Public Works	\$ 27,353,014	\$ 26,980,448	\$ (372,566)
Recreation	\$ 4,332,469	\$ 4,273,976	\$ (58,493)
Library	\$ 3,844,407	\$ 3,722,712	\$ (121,695)
Total Expenditures	\$ 147,139,422	\$146,357,806	\$ (781,616)

Budget Transfers

The following table reflects the administrative budget transfers that have been approved through the second quarter. These changes result in no net fiscal impact to the General Fund budget and are within the Council policy allowing for transfers up to \$15,000.

Summary of General Fund Budget Transfers

Date	Description	Amount	From/To
Development Services GF			
Jul-15	Transfer for copier lease	\$500	Supplies & Services to Capital
Human Resources			
Jul-15	Transfer to Other Expenses (Refund)	\$56	Supplies & Services to Other Expenses
Boards and Commissions			
Sep-15	Transfer for Personnel Services	\$100	Supplies & Services to Personnel
Public Works			
Nov-15	Transfer for Turf Replacement	\$15,000	Utilities to Supplies & Services
Nov-15	Transfer for Vehicle Outfitting	\$11,245	Capital to Supplies & Services
Nov-15	Transfer for Emergency Facility Repairs	\$15,000	Personnel to Supplies & Services
Nov-15	Transfer for Park Sports Field Lighting	\$15,000	Utilities to Supplies & Services

Mid-Year Budget Amendments

Mid-year expenditure appropriations approved through December 30, 2015 totaled \$2,007,233. The City Council approved changes to budgeted revenues of \$2,063,055. Combined, these changes result in a positive net impact of \$55,822.

The City Council approved the following budget amendments during through the first quarter:

Summary of General Fund Budget Amendments

Date	Description/Dept	Revenue	Expenditure	Net Impact
7/14/2015	DHS Contraband Kit Purchase (Police)	\$ 21,599	\$ 21,599	\$ -
7/21/2015	HIDTA Position Reclassification (Police)	\$ 1,479	\$ -	\$ (1,479)
7/28/2014	FA Supervising Intel Analyst Admin Fee Revenue (Police)	\$ 4,825	\$ -	\$ (4,825)
9/15/2015	San Ysidro Health Clinic Amended Lease (Non-Departmental)	\$ 40,000	\$ 40,000	\$ -
8/5/2014	610 Bay Bl Property Improvements for AIM Lease (Non-Departmental)	\$ 10,000	\$ 10,000	\$ -
10/6/2014	Unrepresented, Conf./Non Conf. MOU Salary Adjustments (Various)	\$ 244,511	\$ 244,511	\$ -
11/3/2015	Animal Care Facility Roof Repair (Animal Care Facility)	\$ 33,736	\$ 33,736	\$ -
11/3/2015	Western Council of Engineers MOU Salary Adjustments (Various)	\$ 29,590	\$ 29,590	\$ -
11/3/2015	1st Quarter Budget Adjusmtents (Various)	\$ 916,295	\$ 916,295	\$ -
11/3/2015	Chula Vista Employees Assoc. MOU Salary Adjustments (Various)	\$ 301,020	\$ 301,020	\$ -
12/15/2015	Attorney Services for Case at Bay and E. (Non-Departmental)	\$ 460,000	\$ 460,000	\$ -
Total Appropriations to date:		\$2,063,055	\$ 2,056,751	\$ (6,304)

- The above table does not reflect a -\$49,518 accounting adjustment to the Non-Departmental budget that was made as a result of the close-out of a capital improvement project (CIP).