



## OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through December 31, 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 California, UCLA Anderson Forecast Economist, foresee a slower and prolonged period of sluggishness for the state's economy but continue to predict that California will not fall into a recession. They expect unemployment to peak at 6.1% in late 2008. Real growth in Gross State Product and Personal Income is expected to be in the 1 – 2% range over the same period.

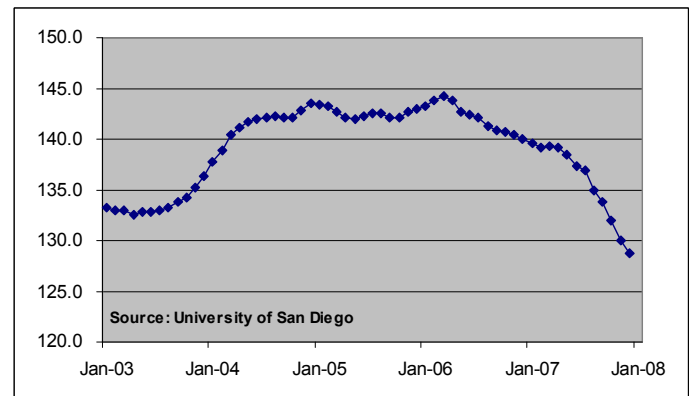
The weakness in the vast real estate sector continues to contribute towards the sluggish economy. The collapse of the housing market coupled with the credit crunch will continue to weigh down economic activity throughout 2008.

The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 1.0 percent in December after falling 1.5 percent in November. December's decline was the fourth large drop (one percent or more) in the last five months, and the Index has now fallen in 20 of the last 21 months. Leading the way to the downside were sharp drops in consumer confidence and help wanted advertising. Also down to a lesser extent were initial claims for unemployment insurance, local stock prices, and the outlook for the national economy. The only positive component was building permits, which were up moderately during the month. Despite a gain in December, residential units authorized by building permits declined by 31 percent in 2007 compared to 2006. Both single-family units (down 26 percent) and multi-family units (down 35 percent) were hurt by the slump.

Although the local economy is not in a recession in the sense that there has been a loss of jobs or a drop in Gross Regional Product, economic activity has slowed considerably. Initial data for 2007 shows an increase

of 10,700 jobs for the year, compared to a gain of 17,800 jobs in 2006, and the unemployment rate is approaching 5 percent. Combined with slow housing sales and a surge in foreclosures, we are probably in the San Diego equivalent of a recession at this point. That weakness is expected to continue for most of 2008.

### San Diego Index of Leading Economic Indicators



## GENERAL FUND SUMMARY

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 was 6.3%.

General Fund Reserve	Budget	Projected
Reserves - July 1, 2007	\$ 10.4	\$ 10.4
Projected Revenues & Transfers In	164.9	149.4
Expenditures & Transfers Out	(164.9)	(152.9)
Projected Deficit	0	(3.5)
<b>Fund Balance as of June 30, 2008</b>	<b>\$ 10.4</b>	<b>\$ 6.9</b>
<b>Percentage of Operating Budget</b>	<b>6.3%</b>	<b>4.3%</b>

For fiscal year 2007-08, due to the continued decline in the economy and housing market a General Fund deficit of \$3.5 million is currently projected. A projected revenue shortfall of \$15.5 million is partially offset by estimated expenditure savings of \$12 million. The additional revenue shortfalls from the first quarter report can be divided into two categories: *discretionary revenues* and *departmental programmatic revenues*.

In the first quarter, several discretionary revenues were adjusted downward by \$7.6 million however receipts for property and sales tax trends at this time indicate that an additional adjustment of \$2.1 million is warranted.

Discretionary Revenues	Adjusted Budget	2nd Quarter Projected	Delta
Sales Tax	\$ 29,836	\$ 29,096	(\$740)
Property Tax	30,250	29,085	(1,165)
Motor Vehicle License Fee	19,651	19,651	0
Franchise Fees	8,813	8,813	0
Utility Users Tax	7,052	7,052	0
Transient Occupancy Tax	2,672	2,672	0
Real Property Transfer Tax	1,000	800	(200)
Miscellaneous	1,800	1,800	0
<b>Total</b>	<b>\$ 101,075</b>	<b>\$ 98,969</b>	<b>(\$2,105)</b>

In the chart below it can be seen that departmental programmatic revenues are being affected by continued declines in development related revenues, grant reductions, capital improvement project revenues and other fees for city services.

Revenue Category	Adjusted Budget	2nd Quarter Projected	Delta
Development Revenue	\$ 12,502	\$ 10,567	(\$1,935)
Licenses and Permits	869	760	(109)
Fine, Forfeitures & Penalties	1,771	1,312	(460)
Police Grants	1,575	1,777	202
Other Agency Revenue	3,423	3,553	131
Charges for Services	6,928	6,824	(104)
Interfund Reimbursements	11,919	10,679	(1,240)
Transfers From Other Funds	10,487	10,201	(287)
<b>Total</b>	<b>\$ 49,472</b>	<b>\$ 45,672</b>	<b>(\$3,801)</b>

Offsetting a significant portion of the revenue shortfalls are \$12 million in savings because of the Budget Reduction Process (\$6.3m), deferral of employee salaries (\$1.6m), the continuation of the hiring freeze for the remainder of the fiscal year (\$1.2m), the refunding/restructuring of some outstanding debt (\$1.2m), workers compensation savings (\$0.5m) and additional savings identified by the departments (\$1.2m). Taking all of these items into account we are projecting a current year budgetary shortfall of approximately \$3.5 million.

Due to the continued projected gap, a citywide administrative freeze has been placed on all discretionary spending such as travel, conferences, vehicle purchases, reference materials, contractual

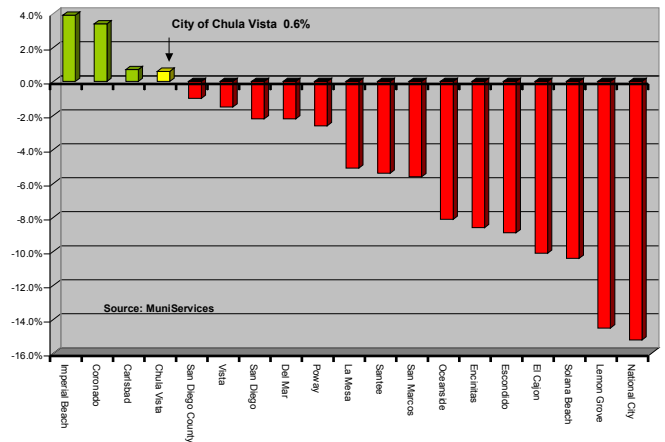
services etc. At this time, the administrative freeze could potentially save an additional \$1.0 million to \$2.0 million in the current fiscal year that would reduce the \$3.5 million deficit by the amount saved.

An update on the budget gap will be provided in the Third Quarter Financial Report along with the updated Five Year Forecast Report.

## Revenues

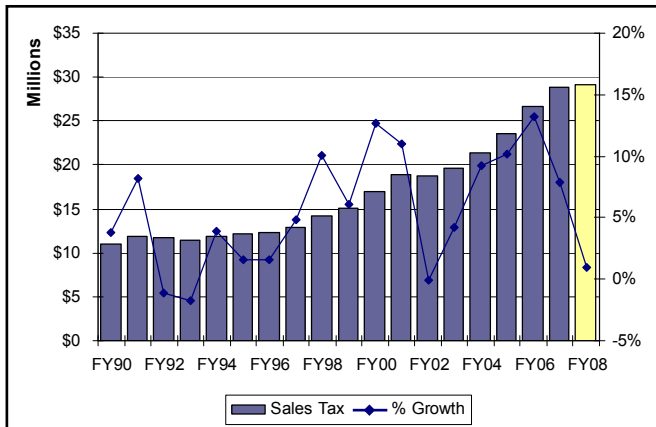
A brief discussion of each of the revised revenues will follow.

**Sales Tax.** City staff met with the City's sales tax consultant, MuniServices, to review sales tax revenues through the third quarter of calendar year 2007. Per the most recent reports, jurisdictions across California experienced slow downs or even declines in sales tax revenue during the third quarter of 2007.



Regional sales tax growth was 0.2% statewide, 0.5% in Northern California, and 0.1% in Southern California. After adjusting for inflation, California actually experienced a decline of -3.1% statewide, -2.8% in Northern California and -3.2% in Southern California.

The City of Chula Vista's sales tax revenues stayed relatively flat for the same quarter over quarter comparison. The above chart reflects Chula Vista's sales tax with that of other jurisdictions in the County during the third quarter of the calendar year.



Based on the most current report, the City's sales tax projections will be adjusted downward by an additional \$740,000. At this time, sales tax is projected to be 1% higher than the prior year.

**Property Taxes.** Property tax is the City's second largest revenue source, representing 18.3% of the total General Fund revenue in fiscal year 2006-07. The City's assessed value has increased at historical rates over the past seven years with the largest percent increase of 20% occurring in fiscal year 2005-06. Based on the June 2007 County Assessor's annual valuation report, the assessed values in Chula Vista grew by 14% resulting in a corresponding increase in the property tax roll for fiscal year 2007-08.

**Property Tax Projection Is Reduced By \$1.2 Million**

Since the Assessor's report was issued, there has been a significant increase in the number of foreclosures in Chula Vista from the prior year. Per DataQuick Information Systems, notices of default

(indicates the homeowner is 90 days late on their mortgage payment) increased from 1,018 in 2006 to 2,617 in 2007 an increase of 157%. Trustee sales (loss of home) went from 194 in 2006 to 1,060 in 2007 an increase of 446%. This is primarily due to the subprime mortgage issue that has resulted in the tightening of mortgage lending practices.

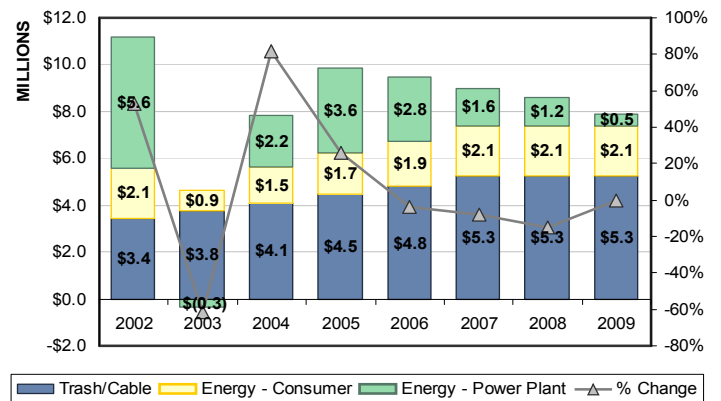
Foreclosures are having an additional negative impact on property tax revenues in the city by depressing housing values. The drop in assessed values has triggered Proposition 8, a constitutional amendment passed in 1978 that allows a temporary reduction in assessed value when real property suffers a "decline-in-value". Therefore, as assessed values fall, homeowners can apply for a reassessment of their

homes which would lead to a reduction of property taxes based on the lower assessment.

Anticipating some level of impact to the city, the fiscal year 2007-08 property tax projections will be adjusted from the reported 14% increase in assessed value to 10%. This adjustment will result in a reduction in projected property tax revenues of \$1.2 million. Property tax projections will continue to be conservative in fiscal year 2008-09 based on the assumption that the housing market will not recover during this period.

**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.

**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 were revised downward by \$1.6 million in the first quarter report.

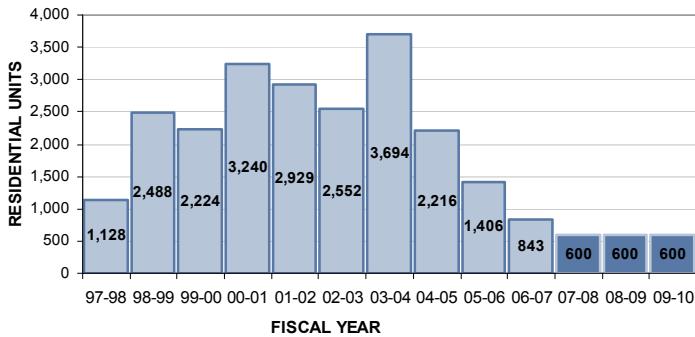


**Utility Users Tax (UUT).** Revenues are projected to come in higher than budget by \$368,877 due to higher actual revenues realized in the prior fiscal year and were adjusted in the first quarter report.

**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 \$0.8 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 first quarter projection of \$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 first quarter projection of \$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 second quarter 286 permits have been issued.

**Other Development Related Revenues.** Development related revenues continue to fall as the housing market and construction industry continues to deteriorate. At this point, departments have reported an additional reduction in projected development revenues of \$1.9 million.

**Interfund Transfers/Reimbursements.** Interfund Transfers and reimbursements are being reduced due to revised gas tax projections, loss of library grant funds, and reduced staff time reimbursements.

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

## Expenditures

The chart includes the General Fund's Council Adopted Budget, Adjusted Budget and year-to-date expenditures as of December 31, 2007. Both the Adopted and Adjusted budget amounts include council approved budget amendments of \$380,914 and prior year encumbrances of \$880,631.

The Adjusted Budget includes reductions of \$9.1 million from the Adopted Budget for the Budget Reduction Plan (\$6.3m), Hiring Freeze (\$1.2m) and Salary Deferrals (\$1.6m).

As reflected in the chart Departmental operating costs are at 48.48% of Adjusted Budget at the close of the second quarter. This is lower in comparison to the prior year second quarter expenditures of 49.6%.

Expenditures	Adopted Budget	Adjusted Budget	YTD Actuals	Percentage Expended
City Council	\$ 1,549	\$ 1,466	\$ 625	42.63%
Boards and Commissions	15	15	7	44.43%
City Clerk	1,211	1,123	503	44.78%
City Attorney	2,670	2,440	1,152	47.20%
Administration	3,419	3,180	1,554	48.88%
Information Technology	4,178	3,979	1,977	49.69%
Human Resources	4,663	4,363	2,364	54.18%
Finance	3,184	2,932	1,489	50.77%
Non Departmental	3,962	3,962	2,851	71.96%
General Services	11,172	9,916	5,069	51.12%
Community Development	1,932	1,794	906	50.49%
Planning and Building	9,752	9,664	4,566	47.24%
Engineering	6,698	5,753	2,851	49.56%
Public Works	18,103	16,153	8,077	50.00%
Police	50,794	49,892	23,238	46.58%
Fire	24,932	23,822	11,399	47.85%
Recreation	6,675	6,118	2,809	45.92%
Library	9,963	9,203	4,152	45.12%
Nature Center	1,260	1,198	521	43.45%
<b>Total General Fund</b>	<b>\$166,132</b>	<b>\$ 156,974</b>	<b>\$ 76,108</b>	<b>48.48%</b>

## Mid-Year Budget Amendments

Mid-year appropriations during the quarter totaled \$380,914 with offsetting revenues of \$449,409 for a net positive impact of \$68,495. The majority of the appropriations were for grants or donations that 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	-
<b>First Quarter Budget Amendments</b>	<b>\$ 309,932</b>	<b>\$ 241,437</b>	<b>\$ 68,495</b>
Grant from Kaiser Foundation Hospitals for Kids	19,115	19,115	-
Office of Traffic Safety DUI Enforcement grant	120,362	120,362	-
<b>Second Quarter Budget Amendments</b>	<b>\$ 139,477</b>	<b>\$ 139,477</b>	<b>\$ -</b>
<b>Year-to-Date Budget Amendments</b>	<b>\$ 449,409</b>	<b>\$ 380,914</b>	<b>\$ 68,495</b>

## Budget Transfers

There was one administrative budget transfer of \$1,500 during the second quarter. The transfer from Community Development Services and Supplies budget category to the Utilities category transferred some cell phone budget to the land lines budget.