



## Quarterly Financial Report – General Fund First Quarter Ending September 30, 2008

November 17, 2008

### OVERVIEW

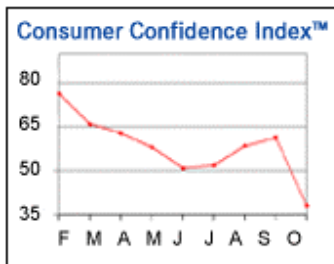
This financial report summarizes the City's General Fund financial position for the fiscal year for July 1, 2008 through September 30, 2008. The purpose of this report is to provide the City Council, Management and the Citizens of Chula Vista an update on the City's fiscal status based on the most recent financial information available.

### ECONOMIC UPDATE

#### National News

The Treasury and Federal Reserve enacted several programs in order to promote more liquidity and confidence in the battered financial system. These actions are beginning to have an impact and there are some signs of improvement in the credit markets, most notably a drop in the London Interbank Offered Rate (LIBOR). Yet, amid a global slowdown and reduced spending, the U.S. economy contracted 0.3% in the third quarter. Continued weakness is expected through 2009 as the job market weakens and consumer confidence deteriorates.

Increasingly worried about the labor market, consumers were reportedly more pessimistic in October as unemployment swelled to 6.5 percent in October from 6.1



percent in the previous month, the highest level in 14 years. This surge in unemployment has prompted economists to forecast continued deterioration in the labor market. For that reason, the Conference Board Index of Consumer Confidence scored a new record low of 38, down from 61.4 in September. Economists believe this decline in confidence will result in a steep drop in consumer spending in the fourth quarter.

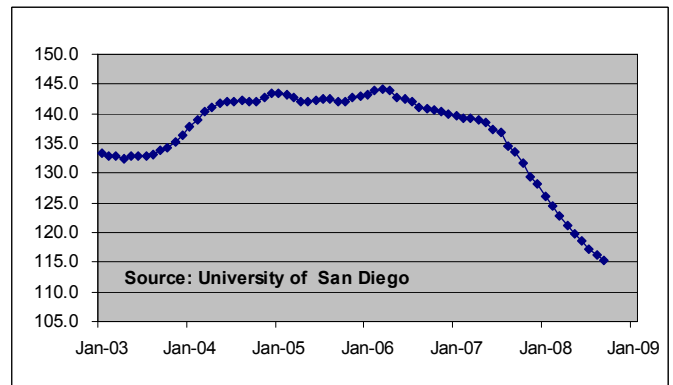
Retail sales declined 1.2% in September, the largest decline in three years. Much of this decrease occurred in the automobile sector due largely to the poor credit environment and low consumer confidence. U.S. automakers posted the lowest level of auto sales in 17 years.

The malaise in the housing market also continues to be a significant drag on the economy. Home sales for both new and existing homes staged a modest increase of 2.7% and 5.5% respectively in September. These increases are mostly attributed to distressed home sales. Lower home prices may make homes more affordable and attractive to potential buyers, but enthusiasm for the housing market remains tempered because of elevated inventories, a dire employment situation and tight credit markets.

#### Local News

The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 0.8 percent in September. Leading the way to the downside was a surge in initial claims for unemployment insurance and down considerably were building permits, local stock prices, and consumer confidence, while there was a more modest loss in help wanted advertising. September's drop marked the 29th time in 30 months that the USD Index has dropped.

**San Diego Index of Leading Economic Indicators**



There is no change in the previously reported negative outlook for the local economy through the first half of 2009. What is needed to turn the economy around both locally and nationally is stability in the housing market. Falling prices and a jump in foreclosures have hurt both the labor market and the financial markets and institutions. The recent increase in home resales is a positive sign, but a bottom in the housing market is not likely to be reached until the latter part of 2009, and home prices are not expected to increase until 2010 at the earliest.

## GENERAL FUND SUMMARY

City Council Policy No 220-03 recommends the City maintain at least an 8 percent reserve level. As of June 30, 2008, the General Fund reserve level was at 6.1 percent (unaudited).

General Fund Reseve - (millions)	Amended Budget	Projected (millions)
Reserves - July 1, 2008 (unaudited)	\$ 9.3	\$ 9.3
Revenues & Transfers In	142.9	137.3
Expenditures & Transfers Out	(142.9)	(141.3)
Projected Deficit	\$ -	\$ (4.0)
<b>Fund Balance as of June 30, 2009</b>	<b>\$ 9.3</b>	<b>\$ 5.3</b>
<b>Percentage of Operating Budget</b>	<b>6.1%</b>	<b>3.5%</b>

For fiscal year 2008/09, because of the credit crisis and housing market meltdown, the economy continues to worsen and a General Fund deficit of \$4.0 million is currently projected. A projected revenue shortfall composed of discretionary revenues (\$2.2 million) and programmatic revenues (\$3.3 million) totaling \$5.5 million is partially offset by projected expenditure savings of \$1.6 million. The projected savings are related to a citywide administrative freeze on all discretionary spending such as travel, conferences, memberships and vehicle purchases. These projections will continue to be revised as updated financial information becomes available.

## Revenues

For the first quarter, several discretionary revenues are being adjusted downward by \$2.2 million. A brief discussion of the revised revenue projections will follow.

Discretionary Revenues	FY 2008/09		Delta
	Budget	Projected	
Sales Tax	\$ 29,678	\$ 26,890	(\$2,788)
Property Tax	30,232	29,932	(300)
Motor Vehicle License Fee	20,216	20,134	(82)
Franchise Fees	8,732	9,663	931
Utility Users Tax	7,122	7,122	0
Transient Occupancy Tax	2,753	2,753	0
<b>Total</b>	<b>\$ 98,733</b>	<b>\$ 96,494</b>	<b>(\$2,239)</b>

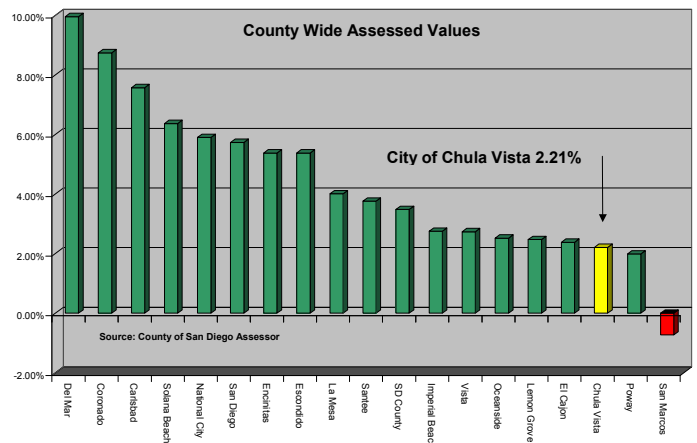
Reflected in the chart below are departmental programmatic revenue adjustments of \$3.3 million. These adjustments are necessary due to continued declines in development related revenues, grant reductions, capital improvement project revenues and other fees for city services.

Revenue Category	FY 2008/09		Delta
	Budget	Projected	
Development Revenue	\$1,966	\$1,265	(\$701)
Licenses and Permits	\$518	\$561	\$43
Fine, Forfeitures & Penalties	\$1,494	\$1,722	\$228
Use of Money and Property	\$2,421	\$2,053	(\$368)
Other Local Taxes	\$2,164	\$2,148	(\$16)
Police Grants	\$1,823	\$1,775	(\$48)
Other Agency Revenue	\$3,520	\$3,206	(\$314)
Charges for Services	\$6,335	\$6,248	(\$87)
Interfund Reimbursements	\$8,916	\$8,062	(\$854)
Other Revenues	\$2,701	\$2,747	\$46
Transfers From Other Funds	\$12,272	\$11,048	(\$1,224)
<b>Total</b>	<b>\$ 44,130</b>	<b>\$ 40,835</b>	<b>(\$3,295)</b>

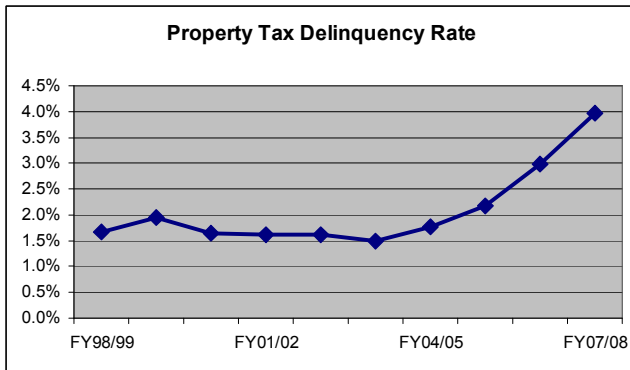
**Property Taxes.** The City of Chula Vista receives property tax revenue based upon a 1.0 percent levy on the assessed value of all real property.

**Property Tax Projection Reduced By \$300,000**

Property tax is the City's largest revenue source, representing 19.1 percent of the General Fund revenue in fiscal year 2007/08. The City's assessed value grew at historical rates until recently with the largest percentage increase of 20 percent occurring in fiscal year 2005/06. Based on the June 2008 County Assessor's Annual Valuation Report for fiscal year 2008/09, the assessed value in Chula Vista grew by only 2.21 percent due to a combination of increased commercial values, addition of the SR125 toll road to the tax roll and the drop in residential assessed values.



The fiscal year 2008/09 Property Tax budget anticipated a 3.9 percent increase. The current projections for Property Tax are being adjusted downwards by \$300,000 to reflect the final Assessors value of 2.21 percent.



Having more of an immediate impact on property tax revenues are the property tax delinquency rates that continue to climb as the sub-prime mortgage crisis is leaving many homeowners with mortgages that are greater than the current value of their homes. As seen in the chart, the delinquency rate has more than doubled from an average of 1.7 percent for fiscal years 1998/99 to 2004/05 to 3.96 percent for fiscal year 2007/08.

The median home price in the City has dropped significantly from September 2007. Recent sales data indicates that the median price drops range as high as 37.8 percent in the City. For example, the southeast part of the City has seen a decrease of (20.7) percent while the northeastern part of the City has suffered a (37.8) percent drop in median price.

Zip Code	Locale	Median Price		Percent Change
		Sept 2007	Sept 2008	
91910	North	\$ 400,000	\$ 310,000	-22.5%
91911	South	\$ 376,000	\$ 250,000	-33.5%
91913	Eastlake	\$ 435,250	\$ 340,000	-21.9%
91914	NE	\$ 812,500	\$ 505,000	-37.8%
91915	SE	\$ 512,000	\$ 370,000	-20.7%

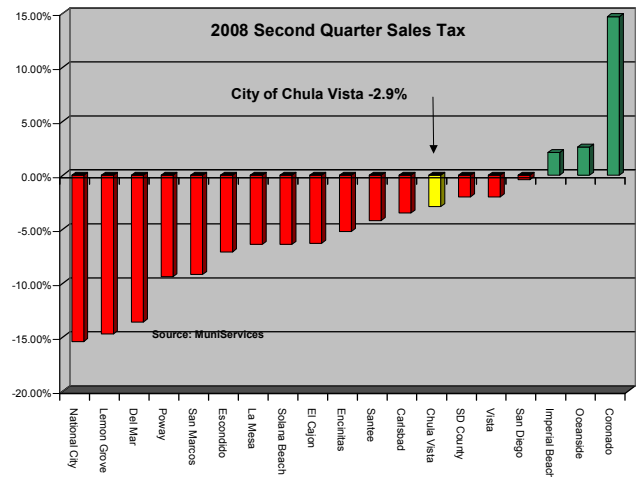
Source: San Diego Union

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. Many of these downward reassessments may not appear on property tax bills until next fiscal year requiring further adjustments to the fiscal outlook.

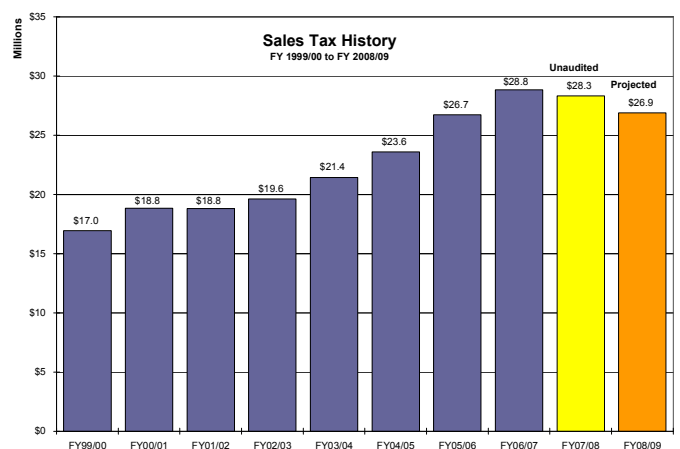
**Sales Tax.** Sales tax is the City's second largest revenue source, representing 18.5 percent of fiscal year 2007/08 actual revenues.

**Sales Tax Projection Reduced By \$2.8 Million**

City staff met with the City's sales tax consultant, MuniServices, to review the most recent sales tax revenues. They report that the change in sales tax receipts between second quarter 2007 and the second quarter 2008 decreased by 3.1 percent Statewide, by 4.0 percent in Southern California and 2.9 percent in Chula Vista.



The above chart compares Chula Vista's sales tax with that of other jurisdictions in the County during the second quarter of the calendar year. The chart below depicts the City's sales tax history from fiscal year 1999/2000 to the end of the current fiscal year. For



current fiscal year 2008/09, the projection reflects a

decrease of 5 percent from the prior year actual amount received.

**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 that relies on assessed valuations and the decline in automotive sales this revenue source has been adjusted downward by approximately \$82,000.

**Franchise Fees.** The revenue projection is being revised upward by \$900,000 based on actual amounts received in fiscal year 2007/08.

**Utility Users Tax (UUT).** Revenues are budgeted at \$7.1 million, which is \$250,000 less than actuals for fiscal year 2007/08. No change in the projection is anticipated pending the outcome of the lawsuits that are currently moving through the courts.

**Development Related Revenues.** Development related revenues are being adjusted downwards by \$700,000 due to the continued deterioration of the housing market.

**Interfund Transfers & Reimbursements.** Interfund Transfers and reimbursements are being reduced by \$1.2 million due to revised gas tax projections, loss of library grant funds, and reduced staff time reimbursements from the sewer and development impact fee funds.

## Expenditures

Department	Amended Budget	Expended YTD	% Expended
City Council	1,311,626	246,241	18.8%
Boards/Commissions	14,736	3,780	25.7%
City Clerk	971,934	174,148	17.9%
City Attorney	2,431,634	334,729	13.8%
Administration	4,252,892	856,370	20.1%
Information Technology	3,824,199	904,782	23.7%
Human Resources	4,776,085	1,441,505	30.2%
Finance	2,737,944	545,660	19.9%
Non-Departmental	5,364,967	3,639,183	67.8%
Planning and Building	2,479,239	487,127	19.6%
Engineering	4,704,653	966,698	20.5%
Public Works	24,717,673	4,882,601	19.8%
Police	47,990,954	9,645,533	20.1%
Fire	22,800,987	5,006,601	22.0%
Recreation	6,387,961	1,322,996	20.7%
Library	8,083,924	1,738,187	21.5%
<b>Total General Fund</b>	<b>\$142,851,408</b>	<b>\$32,196,141</b>	<b>22.5%</b>

The General Fund's Amended Budget reflects the Council adopted budget of \$142.3 million and all mid-year appropriations (\$507,999) approved by City Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 22.5 percent of the General Fund budget after 25 percent of the fiscal year has elapsed.

The following table shows the General Fund departments with their amended budgets and the projected expenditures for the fiscal year. The projected expenditures anticipate savings of approximately \$1.6 million.

Department	Amended Budget	Projected Expenditures	Projected Savings
City Council	1,311,626	1,311,626	-
Boards/Commissions	14,736	14,736	0
City Clerk	971,934	869,682	102,252
City Attorney	2,431,634	2,083,091	348,543
Administration	4,252,892	3,934,157	318,735
Information Technology	3,824,199	3,588,493	235,706
Human Resources	4,776,085	5,592,564	-816,479
Finance	2,737,944	2,652,963	84,981
Non-Departmental**	5,364,967	7,826,304	-2,461,337
Planning and Building	2,479,239	2,470,597	8,642
Engineering	4,704,653	4,608,090	96,563
Public Works	24,717,673	23,298,202	1,419,471
Police	47,990,954	46,986,017	1,004,937
Fire	22,800,987	22,304,547	496,440
Recreation	6,387,961	6,177,302	210,659
Library	8,083,924	7,568,179	515,745
<b>Total General Fund</b>	<b>\$142,851,408</b>	<b>\$141,286,550</b>	<b>\$1,564,858</b>

\*\* Reflects Budgeted Salary Savings

## Mid-Year Budget Amendments

Mid-year appropriations during the quarter totaled \$507,999 with offsetting revenues of \$520,284 for a net positive impact of \$12,285. The appropriations were for the In-Custody Drug Treatment Program at the jail, CORR Racing overtime reimbursement for fire and police personnel, a donation to the Animal Care Facility, the addition of two code enforcement officers and a police grant to reduce street racing.

Budget Amendments	Revenue	Expenditure	Net Impact
In Custody Drug Treatment Program	\$54,642	\$54,642	\$0
CORR Racing Overtime Reimbursement - Police	\$33,431	\$27,859	\$5,572
CORR Racing Overtime Reimbursement - Fire	\$40,280	\$33,567	\$6,713
Donation to Animal Care Facility	\$1,000	\$1,000	\$0
Addition of Two Code Enforcement Officer II Positions	\$133,000	\$133,000	\$0
Street Racing Crackdown Grant	\$257,931	\$257,931	\$0
<b>Total of 1st Quarter Budget Amendments</b>	<b>\$520,284</b>	<b>\$507,999</b>	<b>\$12,285</b>

## Budget Transfers

There were no administrative budget transfers during the first quarter.