



## Quarterly Financial Report – General Fund Third Quarter Ending March 31, 2009

### OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year July 1, 2008 through March 31, 2009. 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

In its first quarterly report of 2009, the UCLA Anderson links the current national recession to slumping, international economic conditions that will impact the timing and pace of any national recovery. The Forecast asserts that a turnaround in the U.S. economy depends upon a recovery in world trade. The report also states that regardless of the steps taken by the U.S. government, national solutions will not be enough to restore growth and therefore global solutions are essential. In California, it's forecasted that the economy will remain in turmoil for the foreseeable future as the twin sector engines of consumers and construction continue to drag.

The UCLA Anderson Forecast reports that real Growth Domestic Product (GDP) declined by 6.1% in the fourth quarter of 2008 and foresees further declines of 6.8%, 4.5% and 1.7% in the first three quarters of 2009.

As a result of the prolonged contraction, the nation's economy will likely lose 7.5 million jobs from the peak and unemployment will soar. UCLA Anderson predicts that the unemployment rate will peak at 10+% in mid-2010 and the employment recovery of the 2007-2009 recession will be "long and arduous."

The Conference Board Consumer Confidence Index™, which had posted a slight increase in March, improved considerably in April. The Index now stands at 39.2, up from 26.9 in March. Consumer Confidence rose in April to its highest reading in 2009, driven primarily by a significant improvement in the short-term outlook. The Present Situation Index posted a moderate gain, a sign that conditions have not deteriorated further, and may even moderately improve, in the second quarter. The sharp increase in the Expectations Index suggests that consumers believe the economy is nearing a

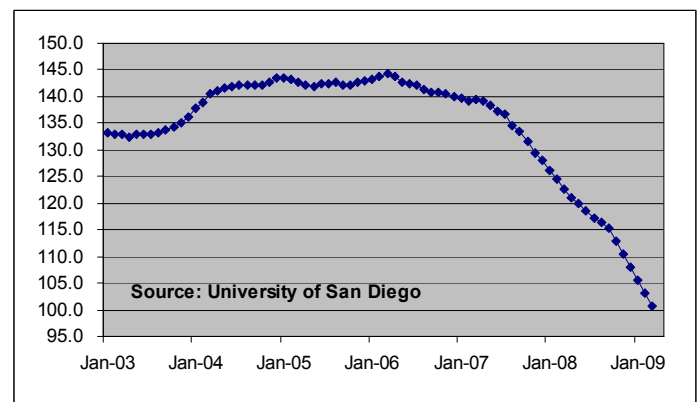
bottom, however, this Index still remains well below levels associated with strong economic growth."

The U.S. Census Bureau estimates U.S. retail sales for March, decreased by 1.1 percent from the previous month and 9.4 percent below March 2008. Total sales for the January through March 2009 period were down 8.8 percent from the same period a year ago.

#### Local News

The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 2.2 percent in March. All six components in the Index, which include building permits, unemployment insurance, stock prices, consumer confidence, help wanted advertising and the national economy, were down at the end of March. The largest decline occurred in help wanted advertising (-4.65%) followed by sharp declines in consumer confidence (-3.27%) and unemployment insurance (-2.31%). The USD Index has now fallen in 35 of the last 36 months. It was also the sixth month in a row that the Index declined by more than two percent, which corresponds to the six largest drops on record.

**San Diego Index of Leading Economic Indicators**



The outlook for the local economy remains strongly negative at this point with no turnaround in sight. The bad job growth numbers for February got worse in March, with San Diego County losing more than 44,000 jobs compared to the year before. Both the national and local economies are caught in a vicious cycle where job losses are reducing incomes, which reduces consumption, auto sales, and home sales, which in turn leads to even more job losses.

## 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 (audited).

| General Fund Reseve (millions)          | Amended Budget | 3rd Q Projected |
|---|----------------|-----------------|
| Reserves - July 1, 2008 (unaudited)     | \$ 9.3         | \$ 9.3          |
| Revenues & Transfers In                 | 143.3          | 140.1           |
| Expenditures & Transfers Out            | (143.3)        | (140.6)         |
| Projected General Fund Deficit          | \$ -           | \$ (0.5)        |
| Projected DSF Deficit                   |                | \$ (1.7)        |
| <b>Total Projected Deficit</b>          |                | <b>\$ (2.2)</b> |
| <b>Balancing Options</b>                |                |                 |
| RDA Loan Repayment                      |                | \$ 0.9          |
| Workers Comp Funding Reduction          |                | \$ 0.7          |
| Equipment Replacement Fund Reduction    |                | \$ 0.6          |
| <b>Total Balancing Options</b>          |                | <b>\$ 2.2</b>   |
| <b>Deficit</b>                          |                | <b>\$ -</b>     |
| <b>Fund Balance as of June 30, 2009</b> | <b>\$ 9.3</b>  | <b>\$ 9.3</b>   |
| <b>Percentage of Operating Budget</b>   | <b>6.1%</b>    | <b>6.1%</b>     |

In the second quarter report for fiscal year 2008/09, the combined General Fund and Development Services Fund deficit was projected at \$3.5 million. The deficit was due to a worsening economy and continued credit crisis and housing market meltdown. A plan to mitigate the current year deficit included laying off city employees in April, imposing an administrative freeze on all discretionary spending such as travel, conferences, memberships, and vehicle purchases. Also, due to better than anticipated tax increment revenues, an inter-fund loan repayment from the Redevelopment Agency of approximately \$900,000 is recommended to close the current year deficit.

The proposed options to mitigate the current year deficit include reduced funding to the Workers Compensation Fund of \$0.7 million, which would leave approximately \$1.0 million in reserves for unanticipated claims. In addition, reduced funding to the Equipment Replacement Fund of approximately \$0.6 million could also be applied to avoid additional deficits in the current year. Neither of these options could create potential future impacts to the General Fund if large unanticipated workers compensation claims materialize and when future replacement of vehicles is necessary.

## Revenues

As the economy continued to worsen throughout the current fiscal year, several discretionary revenues were adjusted downward by \$2.8 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           | 29,232           | (1,000)          |
| Motor Vehicle License Fee | 20,216           | 19,816           | (400)            |
| Franchise Fees            | 8,732            | 10,033           | 1,301            |
| Utility Users Tax         | 7,122            | 7,422            | 300              |
| Transient Occupancy Tax   | 2,753            | 2,570            | (183)            |
| <b>Total</b>              | <b>\$ 98,733</b> | <b>\$ 95,963</b> | <b>(\$2,770)</b> |

Reflected in the chart below are departmental programmatic revenue adjustments of \$0.4 million. The adjustment is necessary due to continued declines in development related revenues, grant reductions, capital improvement project revenues and other fees for city services.

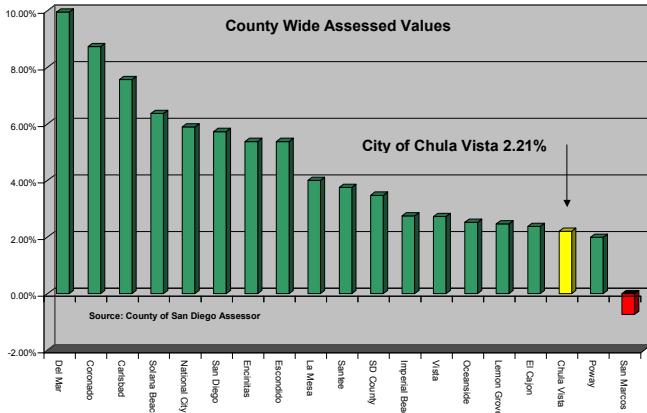
| Revenue Category              | FY 2008/09       |                  | Delta          |
|-------------------------------|------------------|------------------|----------------|
|                               | Budget           | Projected        |                |
| Development Revenue           | \$1,966          | \$995            | (\$971)        |
| Licenses and Permits          | \$518            | \$660            | \$142          |
| Fine, Forfeitures & Penalties | \$1,494          | \$2,231          | \$737          |
| Use of Money and Property     | \$2,421          | \$4,059          | \$1,638        |
| Other Local Taxes             | \$2,164          | \$2,031          | (\$133)        |
| Police Grants                 | \$1,823          | \$1,724          | (\$99)         |
| Other Agency Revenue          | \$3,546          | \$3,201          | (\$345)        |
| Charges for Services          | \$6,371          | \$5,834          | (\$537)        |
| Interfund Reimbursements      | \$9,271          | \$9,288          | \$17           |
| Other Revenues                | \$2,712          | \$3,070          | \$358          |
| Transfers From Other Funds    | \$12,272         | \$11,058         | (\$1,214)      |
| <b>Total</b>                  | <b>\$ 44,558</b> | <b>\$ 44,151</b> | <b>(\$407)</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.

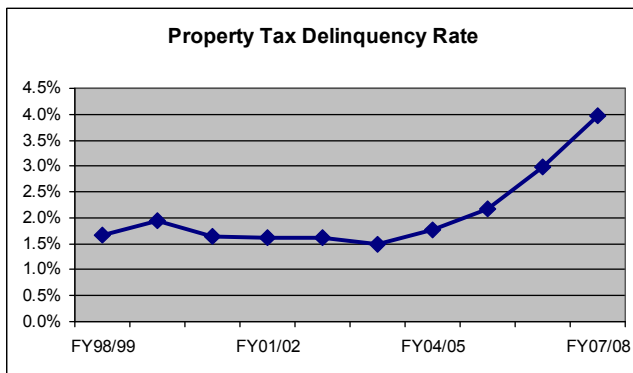
Property tax is the City's largest revenue source, representing 19.1 percent of the General Fund revenue in fiscal year 2007/08. The City's assessed value grew at historical rates until recently with the largest percentage increase of 20 percent occurring in fiscal year 2005/06. Based on the June 2008 County Assessor's Annual Valuation Report for fiscal year 2008/09, the assessed value in Chula Vista grew by 2.21 percent due

**Property Tax  
 Projection  
 Reduced By  
 Additional  
 \$700,000**

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 further adjusted downwards by \$700,000 for a total adjustment of \$1.0 million to reflect the final Assessor's value of 2.21 percent.



Also impacting 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 above, 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.

| Zip Code | Locale   | Median Price |           | Percent Change |
|----------|----------|--------------|-----------|----------------|
|          |          | 2009         | 2008      |                |
| 91910    | North    | \$250,000    | \$330,000 | -24.2%         |
| 91911    | South    | \$165,000    | \$308,000 | -46.4%         |
| 91913    | Eastlake | \$310,000    | \$391,000 | -20.7%         |
| 91914    | NE       | \$387,500    | \$496,000 | -21.9%         |
| 91915    | SE       | \$344,000    | \$391,500 | -12.1%         |

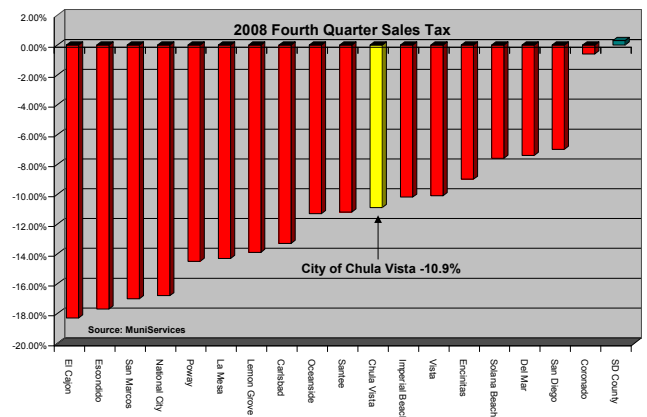
Source: San Diego Union

A comparison of sales data for March 2008 to March 2009 reveals that prices have dropped dramatically from March 2008 levels. Recent sales data indicates that the median price drops range as high as 46.4 percent in the hardest hit areas of the City.

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 requiring further adjustments to the fiscal outlook beyond fiscal year 2009/10.

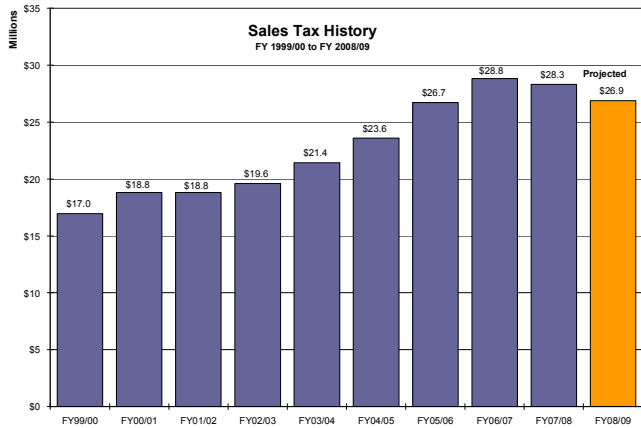
**Sales Tax.** Sales tax is the City's second largest revenue source, representing 18.5 percent of fiscal year 2007/08 actual revenues. City staff met with the City's sales tax consultant, MuniServices, to review the most recent sales tax revenues. They report that the change in sales tax receipts between fourth quarter 2007 and the fourth quarter 2008 decreased by -10.8 percent Statewide, by -12.0 percent in Southern California and -10.9 percent in Chula Vista.

**Holiday Sales Tax Receipts Down 10.9%**



The chart above compares Chula Vista's sales tax with that of other jurisdictions in the County during the fourth 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

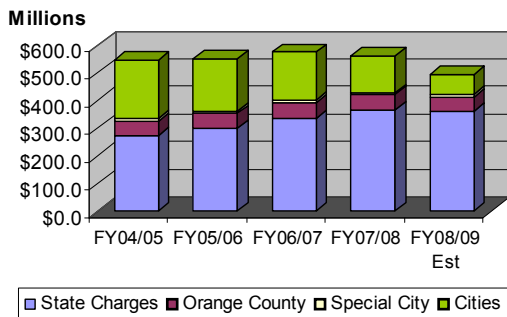
2008/09, the projection reflects a decrease of 5 percent from the prior year actual amount received.



**Motor Vehicle License Fee (VLF).** The State Budget Act of 2004 deleted the VLF backfill, which had compensated cities and counties for the State's reduction of the VLF rate from 2 to 0.65 percent. Under the swap, 90 percent of City VLF revenue was exchanged for property tax which means the majority of VLF revenues for each city will change essentially in proportion to the growth of real property assessed values.

Under this formula, the remaining 10 percent of revenues are based on vehicle registrations and the revenues are distributed in the following order: the State (for administrative charges), Orange County, cities incorporated after August 5, 2004 and finally the remaining funds are allocated among all other cities based on the proportionate population of all cities.

Motor Vehicle License Fee Revenue



State charges for the DMV and other functions are based on a forecast of VLF revenues. VLF revenues have fallen well short of the forecast but the State budget has not been adjusted to reflect actual

collections. This has caused a decline in the remaining revenues available for allocation to cities (illustrated in the chart above). This revenue shortfall has resulted in insufficient funds to pay the cities. Chula Vista did not receive their November or December allocation.

Due to the new formula that relies on assessed valuations and the decline in automotive sales this revenue source has been adjusted downward by an additional \$300,000 in the third quarter for a total of \$400,000.

**Franchise Fees.** The revenue projection was revised upward in the first quarter by \$900,000 to increase the fiscal year 2008/09 base budget amount to equal actual amounts received in fiscal year 2007/08. An additional upwards adjustment of \$370,000 is being made due to the trending of actual revenues received to date.

**Utility Users Tax (UUT).** Revenues are projected at \$7.4 million, which is the same as the prior year actual revenues. This revenue stream continues to be at risk as several legal challenges make their way through the courts.

**Development Related Revenues.** Development related revenues in the General Fund are being adjusted downwards by \$971,000 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 reduced staff time reimbursements from the sewer and development impact fee funds.

## Expenditures

| Department                | Amended Budget       | Expended YTD         | Available Balance   | Percent Expended |
|---------------------------|----------------------|----------------------|---------------------|------------------|
| City Council              | \$ 1,311,626         | \$ 816,449           | \$ 495,177          | 62.2%            |
| Boards/Commissions        | 14,736               | 3,931                | 10,805              | 26.7%            |
| City Clerk                | 971,934              | 625,366              | 346,568             | 64.3%            |
| City Attorney             | 2,431,634            | 1,227,124            | 1,204,510           | 50.5%            |
| Administration            | 4,253,392            | 3,068,222            | 1,185,170           | 72.1%            |
| Information Technology    | 3,824,199            | 2,562,014            | 1,262,185           | 67.0%            |
| Human Resources           | 4,776,085            | 4,293,993            | 482,092             | 89.9%            |
| Finance                   | 2,737,944            | 1,837,777            | 900,167             | 67.1%            |
| Non-Departmental          | 5,364,967            | 9,116,359            | (\$3,751,392)       | 169.9%           |
| Planning and Building     | 2,479,239            | 1,641,778            | 837,461             | 66.2%            |
| Engineering               | 4,756,301            | 3,245,446            | 1,510,855           | 68.2%            |
| Public Works              | 24,717,673           | 15,966,906           | 8,750,767           | 64.6%            |
| Police                    | 47,990,954           | 32,447,351           | 15,543,603          | 67.6%            |
| Fire                      | 23,103,566           | 16,307,720           | 6,795,846           | 70.6%            |
| Recreation                | 6,437,754            | 4,098,331            | 2,339,423           | 63.7%            |
| Library                   | 8,089,924            | 5,193,084            | 2,896,840           | 64.2%            |
| <b>Total General Fund</b> | <b>\$143,261,928</b> | <b>\$102,451,851</b> | <b>\$40,810,077</b> | <b>71.5%</b>     |

The General Fund's Amended Budget reflects the City Council adopted budget of \$143.3 million and all mid-year appropriations (\$918,519) approved by City

Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 71.5 percent of the General Fund budget after 75 percent of the fiscal year has elapsed.

| Department                | Amended Budget       | Projected Expenditures | Projected Savings   |
|---------------------------|----------------------|------------------------|---------------------|
| City Council              | \$ 1,311,626         | \$ 1,117,266           | \$ 194,360          |
| Boards/Commissions        | 14,736               | 7,801                  | 6,935               |
| City Clerk                | 971,934              | 1,139,657              | (167,723)           |
| City Attorney             | 2,431,634            | 1,807,768              | 623,866             |
| Administration            | 4,253,392            | 4,078,621              | 174,771             |
| Information Technology    | 3,824,199            | 3,474,976              | 349,223             |
| Human Resources           | 4,776,085            | 5,549,974              | (773,889)           |
| Finance                   | 2,737,944            | 2,602,799              | 135,145             |
| Non-Departmental          | 5,364,967            | 9,484,137              | (4,119,170)         |
| Planning and Building     | 2,479,239            | 2,464,673              | 14,566              |
| Engineering               | 4,756,301            | 4,566,896              | 189,405             |
| Public Works              | 24,717,673           | 22,771,264             | 1,946,409           |
| Police                    | 47,990,954           | 45,656,415             | 2,334,539           |
| Fire                      | 23,103,566           | 22,994,114             | 109,452             |
| Recreation                | 6,437,754            | 5,784,317              | 653,437             |
| Library                   | 8,089,924            | 7,129,700              | 960,224             |
| <b>Total General Fund</b> | <b>\$143,261,928</b> | <b>\$ 140,630,378</b>  | <b>\$ 2,631,550</b> |

The above 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 \$2.7 million.

### Mid-Year Budget Amendments

Mid-year appropriations during the quarter totaled \$328,079 with offsetting revenues of \$328,079 for a net zero impact. The appropriations were for a grant to the Heritage Museum, repairs to the Nature Center's access road and for reimbursements of Fire Department overtime related to mutual aid agreements.

| 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         |
| Recreation donation for Fun, Fit, and Free Days       | \$7,100          | \$7,100          | \$0             |
| 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>\$527,384</b> | <b>\$515,099</b> | <b>\$12,285</b> |
| Reimb from National City for CIP related tasks        | \$51,648         | \$51,648         | \$0             |
| Donations for youth recreational programming          | \$3,900          | \$3,900          | \$0             |
| Additional youth sports camps                         | \$36,000         | \$19,293         | \$16,707        |
| Donation from Kohl's to support environmental program | \$500            | \$500            | \$0             |
| <b>Total of 2nd Quarter Budget Amendments</b>         | <b>\$92,048</b>  | <b>\$75,341</b>  | <b>\$16,707</b> |
| Heritage Museum grant                                 | \$6,000          | \$6,000          | \$0             |
| Nature Center access road repairs                     | \$19,500         | \$19,500         | \$0             |
| Fire overtime reimbursement                           | \$302,579        | \$302,579        | \$0             |
| <b>Total of 3rd Quarter Budget Amendments</b>         | <b>\$328,079</b> | <b>\$328,079</b> | <b>\$0</b>      |
| <b>Year to Date</b>                                   | <b>\$947,511</b> | <b>\$918,519</b> | <b>\$28,992</b> |

### Budget Transfers

There was one administrative budget transfer during the third quarter for credit card fees that the City incurs when credit card payments are accepted.

| Department                                   | From           | To             | Description                    | Amount          |
|--|----------------|----------------|--------------------------------|-----------------|
| NONE   |                |                |                                |                 |
| <b>Total of 1st Quarter Budget Transfers</b> |                |                |                                | <b>\$0</b>      |
| Planning & Bldg                              | S & S          | Utilities      | Wireless access cards          | \$4,870         |
| Planning & Bldg                              | Other Expenses | Utilities      | Wireless access cards          | \$5,570         |
| Fire   | Personnel      | S & S          | Fire Chief recruitment         | \$15,000        |
| <b>Total of 2nd Quarter Budget Transfers</b> |                |                |                                | <b>\$25,440</b> |
| Recreation                                   | S & S          | Other Expenses | Credit card fees and bus costs | \$13,500        |
| <b>Total of 3rd Quarter Budget Transfers</b> |                |                |                                | <b>\$13,500</b> |

### 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 responsible for the planning, permitting, plan review, and inspection of development applications.

As the fiscal year has progressed it has become apparent that despite cuts made to the Development Services Fund as part of Council actions taken on September 9, 2008, development related revenues are insufficient to support expenditure levels. The Development Services Fund gap has increased from the reported \$1.3 million at the November 17 budget workshop and is now projected to be at \$1.7 million. Current DSF projections are displayed in the table below.

| Division         | Projected Revenues  | Projected Expenditures | Projected Net Impact  |
|------------------|---------------------|------------------------|-----------------------|
| Planning         | \$ 2,222,223        | \$ 2,948,886           | \$ (726,663)          |
| Building         | 1,742,789           | 2,449,584              | (706,795)             |
| Engineering      | 1,678,038           | 1,898,853              | (220,815)             |
| Public Works     | 1,583,695           | 1,659,187              | (75,492)              |
| <b>DSF TOTAL</b> | <b>\$ 7,226,745</b> | <b>\$ 8,956,510</b>    | <b>\$ (1,729,765)</b> |