



Quarterly Financial Report – General Fund First Quarter Ending September 30, 2009

November 5, 2009

OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year for July 1, 2009 through September 30, 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

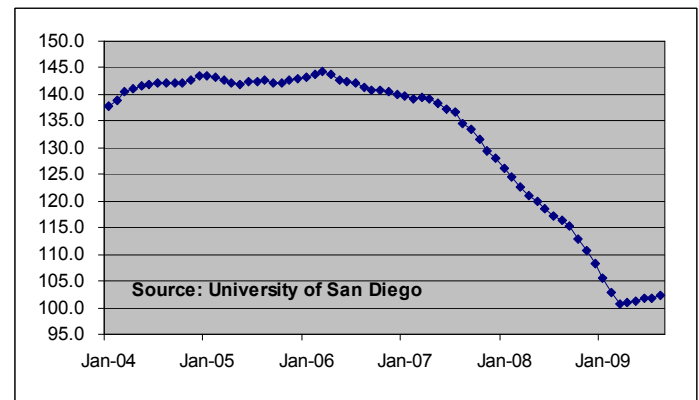
National News

In its third quarterly report of 2009, the UCLA Anderson Forecast concludes that the worst recession in seven decades likely ended in the current quarter, but then states that the negative impact of the downturn will last well into the next decade. Simply put, the Forecast believes that the roots of the recession originated in consumer over-indebtedness and that consumer spending, necessary for a robust recovery, will be tempered both by the unwillingness of financial institutions to lend and by consumers unwillingness to borrow.

In California, the UCLA Anderson Forecast tentatively asserts that the state will join the nation in its economic recovery, but the contraction of state and local government will dampen the impact of the national resurgence for at least the near future. On an annual basis, employment is forecast to contract -3.7% in 2009 and will barely grow at a 0.2% rate in 2010. The unemployment rate will grow to a high of 12.2% for 4th quarter 2009 and will average 11.6% for the year. Though the state economy will be growing by 2011, it will not produce enough jobs to get the unemployment rate below double digits until the end of that year.

The University of San Diego's Index of Leading Economic Indicators for San Diego County rose 0.6 percent in August. As has been the case in the previous four months, a sharp gain in local consumer confidence led the move to the upside. Also advancing

solidly were local stock prices and the outlook for the national economy. These gains outpaced big negative moves in building permits and initial claims for unemployment insurance and a smaller drop in help wanted advertising to push the USD Index to its fifth straight increase.



San Diego Index of Leading Economic Indicators

August's gain was the biggest monthly gain in the USD Index since March 2004. It reinforces the view projected since the Index first turned positive that the local economy is approaching a bottom. The breadth of the advance remains mixed, with the number of rising components matched by the number of decliners. The August numbers are encouraging in that the components that were negative were down by smaller amounts than have recently been the case. A key in the coming months will be whether the local economy can stabilize as the summer ends and we head into the slower fall and winter months. Back-to-school sales have already been classified as weak, and not much improvement is expected in the holiday buying season. As was indicated in previous reports, it looks like a bottom is more likely in the first half of 2010 than in the latter part of 2009.

GENERAL FUND SUMMARY

City Council Policy No 220-03 recommends the City maintain at least an 8 percent reserve level. As of June

30, 2009, the General Fund reserve level was at 6.7 percent (unaudited).

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2009	\$ 9.3	\$ 9.3
Projected Revenues & Transfers In	133.0	129.7
Expenditures & Transfers Out	(133.0)	(131.9)
Midyear Appropriation - Contracting Initiative	(0.1)	
Projected Deficit	\$ (0.1)	\$ (2.2)
Mitigating Actions		
RDA Loan Repayment		1.4
Hiring/Promotional/Non Essential Spending Freeze		0.8
Subtotal		2.2
Revised Projected Deficit		(0.0)
Projected Fund Balance - June 30, 2010	\$ 9.2	\$ 9.3
Percentage of Operating Budget	6.6%	6.7%

For fiscal year 2009/10, although the economy appears to have bottomed out the effects are still being experienced in the City as housing prices remain at depressed levels and unemployment continues to cause reduced consumer spending in the City. As a result, a General Fund deficit of \$2.2 million is currently projected.

Projected expenditure savings of \$1.2 million partially offset the revenue shortfall leaving a deficit of \$2.2 million. To mitigate this deficit, we anticipate a loan repayment from the Redevelopment Agency to the General Fund of \$1.4 million. In addition, the City Manager has authorized an immediate hiring/promotional freeze and administrative freeze on all non-essential services that are anticipated to result in expenditure savings of \$0.8 million. These actions will avoid impacts to reserves and continue to maintain a balanced budget for the current fiscal year per the first quarter analysis.

Revenues

Revenues	FY 2009/10		Delta
	Budget	Projected	
Property Tax	27,199	26,613	(586)
Sales Tax	18,707	18,408	(299)
Sales Tax In Lieu (1/4%)	6,838	6,149	(689)
Motor Vehicle License Fee	18,287	17,716	(571)
Franchise Fees	10,033	8,446	(1,587)
Utility Users Tax	8,169	8,669	500
Transient Occupancy Tax	2,602	2,352	(250)
Business License Tax	1,190	1,190	0
Real Property Transfer Tax	841	860	19
Licenses and Permits	880	888	8
Fine, Forfeitures & Penalties	2,380	2,243	(137)
Use of Money and Property	1,780	1,802	22
Other Agency Revenue	2,741	2,754	13
Charges for Services	7,546	7,538	(8)
Other Revenues	11,438	11,651	213
Transfers From Other Funds	12,340	12,340	0
Total	\$ 132,971	\$ 129,619	\$ (3,352)

Reflected in the chart are discretionary and departmental programmatic revenue adjustments that total \$3.4 million. These adjustments are necessary due to recent information received from the County Assessors office, the City's sales tax consultant and information regarding the City's franchise fees and utility users tax.

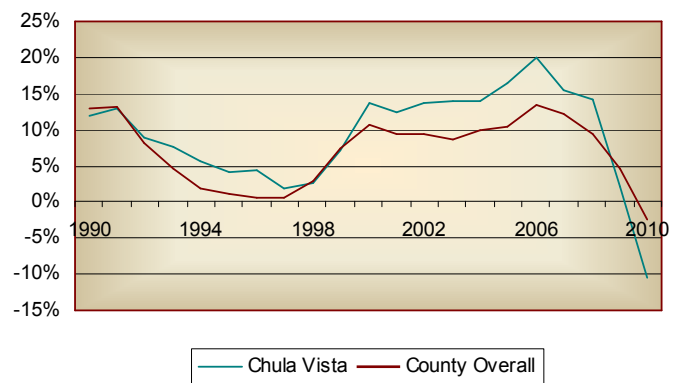
Property Taxes. The City of Chula Vista receives property tax revenue based upon a 1.0 percent levy on the assessed value of all real property.

Property Tax reduced by \$600,000 due to County Assessor revised estimate

Property tax is the City's largest revenue source, representing 20.4 percent of General Fund budgeted revenue in fiscal year 2009/10.

The fiscal year 2009/10 Property Tax budget anticipated an 8.4 percent decrease. However since adoption of the budget the County Assessor has advised the City that there has been a further decline of 2 percent in assessed values from the decline initially reported to the City.

The current projections for Property Tax are being adjusted downwards by \$600,000 to reflect the final Assessors value of an overall -10.4 percent decline in the City's assessed value. The chart below compares the City's assessed values with the assessed values of all San Diego County.



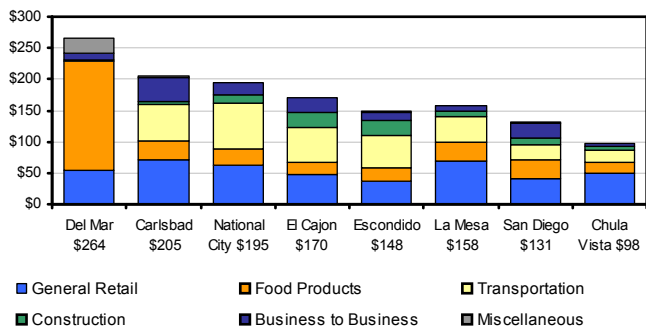
Sales Tax. Sales tax is the City's second largest revenue source, representing 19.2 percent of fiscal year 2009/10 budgeted revenues.

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 second quarter 2009 and the second quarter 2008 decreased by 20.8 percent Statewide, by 19.9 percent in Southern California and 16.4 percent in Chula Vista.

As seen in the revenue table, Sales Tax In-Lieu accounts for much of the adjustment in projected Sales Tax. The Sales Tax In Lieu represents the reimbursement by the State for 0.25 percent of the City's sales tax diverted by the "triple flip" and is actually reimbursed with property tax monies in lieu of sales tax. This account grows at the sales tax rate and not the property tax rate. The City has not been formally notified of the adjustment amount but we have learned that revenue from this source is likely to be \$0.7 million below budget. The State has indicated that the City was "over advanced" for last year and that an adjustment by the State would be forthcoming.

The City's per capita sales tax rate is shown in the chart below.

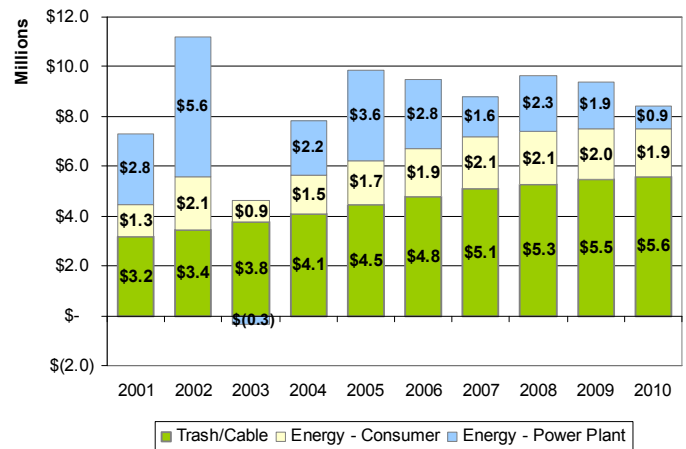


Motor Vehicle License Fee (VLF). With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. For FY 2005/06 and beyond, the majority of VLF revenues for each city will grow essentially in proportion to the growth in the change in gross assessed valuation. Due to the new formula that relies on assessed valuations, the continued decline in automotive sales and the County Assessors additional adjustment of -2 percent in assessed values this revenue source has been adjusted downward by approximately \$0.6 million.

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 (9.05% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E is the single largest generator of

franchise fees and accounts for approximately 35% of the total franchise revenues. SDG&E collects the franchise fee from Chula Vista customers and through a municipal surcharge imposed on the South Bay Power Plant based on their usage of natural gas. Due to the volatility of the price of natural gas and fluctuation in usage, this component is difficult to project. Trash franchise fees and cable fees are more predictable due to the fixed rates charged and the monthly and quarterly receipt of the revenues respectively. Revenue growth is projected based on population and inflation factors with the exception of the South Bay Power Plant, which is impacted by the cost of natural gas and the actual usage of the plant itself.

The Franchise Fee revenue projection is being revised downward by \$1.6 million based on two factors. Based on the most recent information on the price of natural gas, the price per unit has dropped by 51.2 percent (\$7.69 Sept 08 vs. \$3.75 Sept 09). In addition, the Public Utilities Commission recently ruled that only two of the power plant's four generators now have Reliability Must Run status which is also impacting projected revenues for the current fiscal year and on an on-going basis.



Transient Occupancy Tax. It is too early in the fiscal year to predict how TOT will perform for fiscal year 2009-10. However, the two-month's receipts recorded so far this year show a decline of 21 percent from the prior year. The same two-month period in fiscal year 2008-09 may be quite different than this year in that those months were just before the financial market meltdown and travelers may not have changed their travel plans at that point. The preliminary projection is that TOT will fall short of budget by \$250,000.

Utility Users Tax (UUT). Revenues are budgeted at \$8.2 million for fiscal year 2009/10. This revenue is projected to come in \$0.5 million higher as a result of new UUT vendor collections.

Expenditures

Department	Amended Budget	1st Qtr Actual	% Expended
City Council	\$ 1,218,463	\$ 196,620	16.1%
Boards/Commissions	14,736	1,880	12.8%
City Clerk	1,165,554	172,685	14.8%
City Attorney	1,971,380	321,402	16.3%
Administration	1,727,479	336,709	19.5%
Information Technology	3,145,549	863,756	27.5%
Human Resources	3,858,276	1,354,706	35.1%
Finance	3,164,019	613,987	19.4%
Non-Departmental	8,676,225	4,760,274	54.9%
General Services	2,403,505	389,400	16.2%
Planning & Building	4,107,525	788,474	19.2%
Police	44,039,025	9,116,401	20.7%
Fire	21,227,800	4,652,430	21.9%
Public Works	26,395,596	5,194,416	19.7%
Recreation	4,835,080	1,154,521	23.9%
Library	5,136,312	1,162,005	22.6%
Total	\$ 133,086,524	\$ 31,079,666	23.4%

The General Fund's Amended Budget reflects the Council adopted budget of \$133.0 million and all mid-year appropriations (\$120,500) approved by City Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 23.4 percent of the General Fund budget after 25 percent of the fiscal year has elapsed.

Department	Amended Budget	Projected for Year End	Delta
City Council	\$ 1,218,463	\$ 1,157,702	\$ 60,761
Boards/Commissions	14,736	14,736	-
City Clerk	1,165,554	1,160,310	5,244
City Attorney	1,971,380	1,886,048	85,332
Administration	1,727,479	1,681,156	46,323
Information Technology	3,145,549	3,082,281	63,268
Human Resources	3,858,276	3,758,929	99,347
Finance	3,164,019	2,978,503	185,516
Non-Departmental	8,676,225	8,309,064	367,161
Animal Care Facility	2,403,505	2,236,982	166,523
Planning & Building	4,107,525	4,107,525	-
Police	44,039,025	43,967,616	71,409
Fire	21,227,800	21,882,562	(654,762)
Public Works	26,395,596	25,767,831	627,765
Recreation	4,617,080	4,567,810	49,270
*Nature Center	218,000	519,630	(301,630)
Library	5,136,312	4,780,287	356,025
Total	\$ 133,086,524	\$ 131,858,971	\$ 1,227,553

The 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 \$1.2 million.

Mid-Year Budget Amendments

Mid-year appropriations during the quarter totaled \$120,500 with offsetting revenues of \$6,500 for a net negative impact of \$114,000. The appropriations were for a San Diego Police Foundation Grant for the purchase of a narcotics detection canine. The other two appropriations are related to an initiative for "Fair and Open Competition in Contracting Ordinance" to be placed on the June 8, 2010 General Municipal Election ballot.

Budget Amendments	Revenue	Expenditure	Net Impact
SD Police Foundation Grant	\$6,500	\$6,500	\$0
Contracting Initiative Ballot Measure	\$0	\$93,000	(\$93,000)
County of SD Registrar of Voters	\$0	\$21,000	(\$21,000)
Total of 1st Quarter Budget Amendments	\$6,500	\$120,500	(\$114,000)

Budget Transfers

There were three administrative budget transfers during the first quarter that totaled \$9,196.

Department	From	To	Description	Amount
Fire Dept	Personnel	S&S	Adjustments to S&S Budget	7,314
City Council	Utilities	S&S	Adjustments to S&S Budget	154
City Council	Personnel	S&S	Communication Services	1,728
Total of 1st Quarter Budget Transfers				\$9,196