

FISCAL RECOVERY AND PROGRESS PLAN

FY 2013 - FY 2017



CITY OF
CHULA VISTA



Fiscal Recovery and Progress Plan

Fiscal Years 2013 to 2017



CITY OF
CHULA VISTA

January 2012

Fiscal Recovery and Progress Plan

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Executive Summary

In December 2007, the national economy officially entered into a recession, which has been labeled as the worst economic downturn since The Great Depression of 1929. The City of Chula Vista felt the effects of the recession earlier than most agencies primarily due to the rapid residential growth experienced from 1996 to 2006 and the effects of the foreclosure crisis, which subsequently spread across the Country. In addition to the economic crisis and the housing crisis, the City experienced additional revenue losses resulting from the closure of the South Bay Power Plant, the reduction of the Utility Users Tax (wireless telecommunications component) revenue, significant reductions in local sales tax revenue, and continued State takeaways. This resulted in extreme fiscal stress to the City over the past six years.

Since the beginning of the economic downturn the City has implemented several budget balancing strategies in an effort to keep expenditures in line with revenues. With the iterative decline in the economy, the steps to keep the City budget in balance have been continuous throughout the recent past fiscal years. Through the leadership of the City Council and the cooperation of the City's bargaining groups, the City has been able to persevere through severe financial distress unlike anything it has ever experienced in its 100 year history.

In this era of economic uncertainty, the City needs to proceed with caution and continue to take steps toward increased financial resiliency. The Government Finance Officers Association (GFOA) added a Recovery from Financial Distress and Fiscal First Aid section to their website. Included in this section is a map that outlines the steps of Recovery from Financial Distress which outlines a twelve step process for establishing a financially resilient organization that begins with recognizing that an issue exists. Included on their website is a discussion of each step in the recovery process and the importance of moving beyond financial sustainability to financial resiliency.

According to the GFOA, financial sustainability is where structural balance has been achieved, but the institutional practices have not been adopted necessary to withstand future shocks. A sustainable system is balanced, but potentially brittle. In some cases financial policies or budget reforms have not been adopted to guard against the types of financial decisions that caused distress in the first place.¹ Assuming the bottom has been reached in this economic crisis, the City must move beyond immediate fiscal crisis management and begin addressing "high risk" areas in order to minimize the risk of relapse back into fiscal crisis. A relapse can occur if unsustainable recovery strategies are implemented deferring difficult budget decisions or if the City fails to address looming long-term liabilities as part of the recovery plan.

¹ Government Finance Officers Association (GFOA) 12 Step Recovery Model. Retrieved from <http://www.gfoa.org>

Establishing a financially resilient City is a long-term goal that can be reached by first stabilizing the City's financial condition, then working towards financial sustainability, and finally establishing an organization that is financially resilient. Financial resiliency better positions the City to withstand future economic downturns with minimal impacts to service levels.

This report is divided into three sections:

- The first section is an Executive Summary that includes an overview of the City's financial condition and the recommendations contained within this report.
- The second section is the Fiscal Recovery and Progress Plan which outlines some of the major challenges the City faces in achieving financial sustainability and includes next steps towards addressing those issues.
- The last section is the updated Five Year Financial Forecast for the General Fund.

This report is intended to provide an overview of the City's financial condition and to identify the various issues that need to be reviewed on an ongoing basis to ensure that the City achieves financial sustainability and eventually financial resiliency. Some of the issues, such as pension reform, have been successfully addressed during these tough economic times. Other challenges, such as addressing unfunded pension liabilities and infrastructure replacement/maintenance needs, will require long term strategic measures that the City will incorporate and implement in its Long-Term Financial Plan.

Fiscal Health Plan/Recovery & Progress Plan

The development and implementation of the City's Fiscal Health Plan assisted the City in maintaining a balanced budget during severe and ongoing economic decline with the goal of achieving financial stability. The City has made great progress in implementing many of the components of the Fiscal Health Plan which has resulted in both short-term and long term-savings. Included in this report is an update on the four major categories of the Fiscal Health Plan. The Fiscal Health Plan has been further developed and incorporated into the Fiscal Recovery & Progress Plan and includes other key components also necessary to achieve fiscal recovery beyond the current budget cycle.

Major Categories of Fiscal Health Plan

- Budget & Fiscal Reforms
- Expenditures
- Increase/Protect Revenues
- Economic Development

Use of Lean Visual Controls

The Continuous Improvement/LEAN program discussed in this report recommends the application of visual controls to assess the status of a particular process or item. The Fiscal Recovery Plan follows this model and utilizes the following visual categories to assist the reader in determining the status or level of risk to the City's financial stability.

Green – Objective achieved. Low risk to the City's financial standing.

Yellow – Caution in funding status. Not fully achieving funding goals.

Red – High risk area to maintaining a structurally balanced budget. Additional funding or operational efficiency strategies will need to be developed and implemented in the Long-Term Financial Plan.

Financial Focus

The General Fund is the City's operating fund which pays for police, fire, libraries, parks, recreation and administration. All of the major tax revenues including Property Taxes, Sales Taxes and Motor Vehicle License Fees are accounted for within the General Fund budget. The General Fund is the primary focus of the five year financial forecast report. In order to provide for a broader review of funds, which play into the City's financial health, the report also discusses the financial status of the Workers Compensation Fund, Public Liability Fund, and Equipment Replacement Fund. Additional analysis of other key funds such as the Redevelopment Agency Funds, Development Impact Fee Funds, and Sewer Funds will be included in the Long Term Financial Plan.

Service Levels

Significant staffing reductions have occurred over the past five years, which have resulted in the reduction and some elimination of services provided to the community. It is not anticipated that revenues will return to levels which would support adding these services back under the traditional approach of reinstating eliminated positions. The City is developing metric for sustainable service level standards and seeking ways to achieve those standards utilizing available resources and Lean/Continuous Improvement processes. Each department is in the process of performing operational reviews and identifying service level goals under this "new normal" environment. This is a critical step which will link the allocation of resources through the budget process to improvement of service levels based on Council identified priorities.

Steps Taken Toward Long-Term Financial Resiliency

Over the past few years, the City of Chula Vista has taken steps to avoid deficit spending through a variety of cost saving measures including the reduction or elimination of programs, hiring freezes, administrative freeze on discretionary spending, reductions in staffing levels, pension reform and other measures. Many of the changes were significant and will assist the City in moving toward long-term fiscal resiliency.

This is the first issue of the Fiscal Recovery and Progress Plan report which will be updated on an annual basis. One of the objectives of the report is to continue taking steps toward increased transparency in financial management. Included below is a summary of some of the most significant changes/accomplishments achieved by the City over the past few years.

- Creation of second tier retirement benefits for new hires resulting in reduced pension benefits averaging from 10% to 40%.
- Current employees agreed to pay 100% of their share of pension costs.
- Elimination of retiree health care subsidy for new hires
- Non-Public Safety employees gave up contractually scheduled raises.
- Public Safety employees agreed to defer contractually scheduled raises.
- From 2007 to 2012, Executive positions were reduced by 38% and Senior and Mid-Management/Professional positions were reduced by 34%
- General Fund reserves have increased slightly over the past three years moving towards the revised Council Policy of 15% operating reserve levels. The City Council also approved the establishment of two new reserve categories (Economic Contingency Reserve and Catastrophic Event Reserve) with the goal of adding additional security to the General Fund which funds police, fire, recreation, public works, library and other services.
- Maintained a favorable bond rating (A-Stable Outlook) during the recent economic downturn.
- Issued the final payment related to the 1996 Pension Obligation Bonds reducing the General Fund debt ratio to 2.8% of the operating budget.
- Created a successful partnership with the Chula Vista Nature Center as it transitioned to non-profit organization status.
- Partnered with Goodrich Aerostructures to implement Continuous Improvement/Lean principals in the City with the goal of providing public services in the most efficient and cost effective manner.
- Since 2006, the City has repaired all the corrugated metal pipe (CMP) identified as needing immediate attention in the 2005 Baseline Condition Study.

The City of Chula Vista has taken significant steps toward long-term financial resiliency but it will continue to experience challenges related to continued infrastructure deterioration, increasing health care and pension costs and continued State takeaways. This report identifies next steps in areas which can be implemented in the short-term and continue to move the City toward long-term financial resiliency. The City's next steps include the development of a Long-Term Financial Plan which will help the City achieve financial and operational goals. The long-term financial planning process begins with technical analysis, such as long-term forecasting, debt capacity analysis, and capital improvement planning to reveal potential future imbalances in the financial position.² As part of the long-term financial planning process, staff will continue to update the individual components with the goal of bringing forward financial strategies and recommended fiscal policies for Council consideration.

² Gaining Commitment to a Long-Term Financial Plan, Shayne Kavanagh, GFOA

Five Year Financial Forecast Summary

The goal of the Five-Year Financial Forecast is to assess the City's ability over the next five years to continue current service levels based on projected growth, preserve the City's long-term fiscal health by aligning operating revenues and costs, and rebuild the operating reserves.

The General Fund Five-Year Financial Forecast serves as a tool to identify financial trends, shortfalls, and issues so the City can proactively address them. Subsequent forecasts will be updated once revenue projections are revised and budget balancing alternatives are identified and approved.

It is important to stress that this forecast is not a budget. It does not make expenditure decisions but does assess the need to prioritize the allocation of City resources. The purpose of the forecast is to provide an overview of the City's fiscal health based on various assumptions over the next five years and provide the City Council, management and the citizens of Chula Vista with a "heads up" on the financial outlook beyond the annual budget cycle. The five-year forecast is intended to serve as a planning tool to bring a long-term perspective to the budget process.

This long-term financial outlook continues to identify challenges to the City's General Fund. Specific recommendations to achieve a balanced budget for fiscal year 2012-13 will be presented as part of the budget workshops. Subsequent forecasts will be updated when the mid-year budget review is completed (Second Quarter Financial Report) and budget balancing alternatives are identified and approved.

General Fund Five-Year Financial Forecast Fiscal Years 2013 to 2017

Description	FY 2010-11 Actual	FY 2011-12 Adopted	FY 12-13 Forecast	FY 13-14 Forecast	FY 14-15 Forecast	FY 15-16 Forecast	FY 16-17 Forecast
Revenues	\$ 128.7	\$ 121.5	\$ 120.6	\$ 122.3	\$ 124.1	\$ 126.0	\$ 128.4
Economic Contingency Reserves	\$ 3.0	\$ (3.0)	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures/Fund Balance Adj.	\$ 124.1	\$ 124.6	\$ 123.6	\$ 126.0	\$ 127.2	\$ 129.4	\$ 132.1
Surplus/(Deficit)	\$ 1.7	\$ -	\$ (3.0)	\$ (3.6)	\$ (3.2)	\$ (3.3)	\$ (3.7)

During these transitional times and environment of economic uncertainty, financial planning is always a prudent activity and development of a long-term financial plan is essential to sound fiscal management. The Five-Year Financial Forecast is not able to predict with certainty the City's fiscal future, rather it will serve as a tool to highlight significant issues or problems that must be addressed in order to avoid deficit spending.

Although the City of Chula Vista will continue to be challenged as the economy recovers slowly, we should not lose sight of the long-term goal of achieving fiscal resiliency. This would place the City in a better position to withstand the next economic downturn or unanticipated financial challenges while minimizing the impacts to the services we provide to our community.



Fiscal Recovery and Progress Plan

In 2009, the City Council endorsed the City Manager's plan for stabilizing the City's financial condition. The City's Fiscal Health Plan included a four pronged approach that included the following categories:

- Budget & Fiscal Reforms
- Expenditures
- Increase/Protect Revenues
- Economic Development

The Fiscal Health Plan assisted the City in maintaining a balanced budget during severe and ongoing economic decline with the goal of achieving financial stability. The City has made great progress in implementing many of the components of the Fiscal Health Plan which has resulted in both short term and long term savings. The Fiscal Health Plan has been further developed and incorporated into the Recovery and Progress Plan and includes other key components also necessary to achieve fiscal recovery beyond the current budget cycle. The Recovery and Progress Plan detailed in this report identifies the major challenges the City faces in moving from financial stability to financial sustainability and eventually to financial resiliency. This section is organized around the four major components of the Fiscal Health Plan. Where appropriate, staff has identified next steps in addressing the issues/challenges identified in this report.

I. Budget and Fiscal Reforms

The National Advisory Council on State and Local Budgeting (NACSLB) has developed a comprehensive set of recommended budget practices. The recommendations have been endorsed by a number of key governmental associations, by academia and by labor groups associated with state and local governments.

These practices and the associated framework outline a budget process that encompasses the broad scope of governmental planning and decision-making with regard to the use of resources. This work is recognized as one of the most important advances in governmental finance in decades. The Government Finance Officers Association (GFOA) has adopted a recommended practice endorsing the NACSLB practices and the associated framework.

The work of the NACSLB provides a framework for describing the overall budget process. The framework is organized around the four principles of the budget process:

- Establish Broad Goals to Guide Government Decision Making
- Develop Approaches to Achieve Goals
- Develop a Budget Consistent with Approaches to Achieve Goals
- Evaluate Performance and Make Adjustments

Reforming the budget process was one of the key objectives identified in the development of the City's Fiscal Health Plan. Historically, the City had followed the traditional government budgeting system referred to as incremental budgeting. In incremental budgeting, the distribution of resources is based upon allocations from the previous fiscal year with resources added or subtracted incrementally. This process worked during times of increasing revenues because new resources can be allocated to departments and programs with little controversy. During times of revenue decline, the incremental approach is less effective because the across-the-board cuts create a contentious budget development process that does not match up with service priorities.

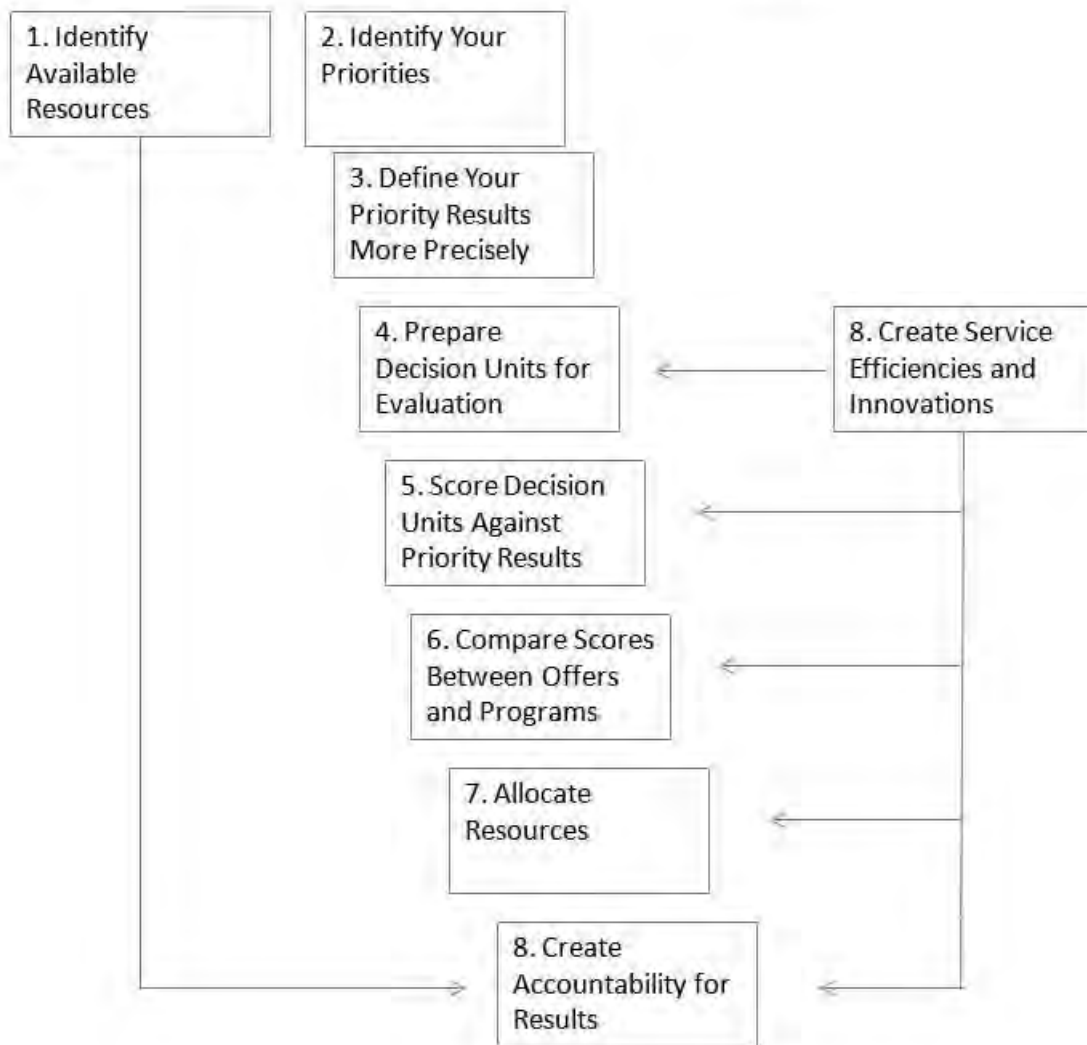
Due to the continuing decline in the economy over the past several years, the City has developed several reduction plans to address the structural imbalance that the economic downturn created in the City's operating budget. The reduction plans were developed using a modified priority-based budgeting process which allocated cuts across all departments at differing levels with an emphasis on protecting core services. As part of the Fiscal Recovery & Progress Plan, the City is researching and evaluating the use of a priority-based budget process which will create a better connection between resource allocation and community priorities. The goal is to implement a budget process which encourages sustainable decisions in times of revenue scarcity as well as in times of revenue growth.

Earlier this year the Government Finance Officers Association (GFOA) released a white paper titled *Anatomy of a Priority-Driven Budget Process*³. In this white paper, GFOA describes the benefits of implementing a priority-driven budget process and lays out a general framework for the transition for this budget development process. Priority-driven budgeting is designed to allocate resources based on how effectively a program or service achieves the goals and objectives that are of the greatest value to the community. Under this process, the City would identify its most important strategic priorities, and then, through a collaborative, evidence-based process, programs and services would be ranked according to how well they align with the stated priorities. Funding then would be recommended in accordance with the ranking.

The GFOA paper notes that the transition to this type of budgeting represents a fundamental change in the way resources are allocated – it is not a one-time event but rather a commitment to long-term change that may require multiple budget cycles before it is fully implemented. The following Process Map developed by GFOA identifies the steps involved for priority-driven budgeting.

³ Kavanagh, S., Johnson, J., and Fabian, C., the Government Finance Officers Association. (2011) *Anatomy of a Priority-Driven Budget Process* [White Paper]. Retrieved from http://www.gfoaconsulting.org/downloads/GFOAWhitepaper_AnatomyofaPriority-Driven%20BudgetProcess_March2011.pdf

Process Map for Priority-Driven Budgeting



Source: The Government Finance Officers Association

Staff recommends implementing priority-driven budget process over two phases. The first phase will include the development of clearly defined City priorities and further developing program information. The priority setting process implemented by other Cities using priority-based budgeting has included a variety of community participation processes. Engaging the community to help establish the desired results will help better define what services and programs are of the most value to the community. In 2006, the City contracted the National Research Center to conduct The National Citizen Survey. The National Citizen Survey is a uniform survey tool used by local jurisdictions across the U.S. to assess resident satisfaction with community services. Updating the survey would allow the City to assess changes in the perception of City services and identify the major problems most concerning to the Community.

In order to make budget decisions using program information, a program inventory needs to be developed. During the last several years, staff has been working to improve performance measurement. This effort will continue with the implementation of the Continuous Improvement (CI) program the City has embarked on. With the implementation of CI and the further development of performance measurement, the City will be in a better position to implement a true priority-driven process. The development of a program inventory will give staff the ability to standardize program information and refine program performance measures.

Once these key pieces have been developed, the City can begin the second phase of implementation which would entail using priority-driven budgeting to develop future budget allocations.

Goals & Objectives

Over the past fifteen years, Mayors and City Councils have identified various major goals and areas of emphasis for the City (i.e. seven major areas of improvement, five strategic themes and the Mayor's Ten Point Action Plan).

Utilizing the above, staff was able to coalesce them into nine overarching goals/areas of emphasis.

- Sustainable Development
- Clean Green Healthy Environment
- Quality Cultural, Educational and Recreational Opportunities
- Good Government
- Infrastructure, Public Buildings and Other Assets
- Public Safety
- Fiscal Responsibility
- Economic Vitality
- Community

Based upon various programs, projects and services determined important by the City Council and City Manager, the Executive management team identified approximately 80 strategic objectives which we are currently addressing.

In September and November 2011, the City Council held goal setting workshops. At the conclusion of the workshops, the Mayor and City Council recognized and supported the ongoing efforts being made to make Chula Vista a lean, efficient and effective organization (i.e. Continuous Improvement Program). They also recognized that the major goals for the City at this time should be the following because without additional funding, enhancing services or addressing projects will not be possible.

- Maintaining and enhancing existing revenues.
- Identifying and capturing new revenues.

In the future, staff would recommend that Council identify updated strategic goals that will be the basis for a Citywide Strategic Plan. The strategic planning process will be used to establish an organizational vision as well as a formalized strategic plan. This process begins with the examination of the organizational mission, core values, and vision. It ends with the development of a strategic plan that translates these concepts into actions and actions into outcomes.⁴ The resulting strategic goals will be used to guide the budget development process in future years.

Next Steps:

- Develop a Priority-Based Budgeting implementation plan.
- Over the next few months, the City will conduct public workshops seeking public input regarding revenue generating ideas.

Green Fiscal Policies

The Government Finance Officers Association recommends that, at a minimum, financial policies in the following areas be developed by professional staff and formally adopted by the jurisdiction's governing board.

- Financial Planning Policies
- Revenue Policies
- Expenditure Policies

The jurisdiction's adopted financial policies should be used to frame major policy initiatives and be summarized in the budget document. It is further recommended that these policies, along with any others that may be adopted, be reviewed during the budget process. Staff should review the policies to ensure continued relevance and to identify any gaps that should be addressed with new policies. The results of the review should be shared with the governing board during the review of the proposed budget. Policy categories that should be considered for development, adoption and regular review are as follows:

Financial Planning Policies

These policies address both the need for a long-term view and the fundamental principle of a balanced budget. At a minimum, jurisdictions should have policies that support:

1. **Balanced Budget** (Approved January 2000 and currently being updated) – A jurisdiction should adopt a policy(s) that defines a balanced operating budget, encourages commitment to a balanced budget under normal circumstances, and provides for disclosure when a deviation from a balanced operating budget is planned or when it occurs.

⁴ City of Charlotte Strategic Operating Plan Fiscal Year 2011.

2. Long-Range Planning (Approved January 2000 and currently being updated) - A jurisdiction should adopt a policy(s) that supports a financial planning process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment policies, programs and assumptions.
3. Asset Inventory (Does not exist – Currently being developed) - A jurisdiction should adopt a policy(s) to inventory and assess the condition of all major capital assets. This information should be used to plan for the ongoing financial commitments required to maximize the public's benefit.

Revenue Policies

Understanding the revenue stream is essential to prudent planning. Most of these policies seek stability to avoid potential service disruptions caused by revenue shortfalls. At a minimum jurisdictions should have policies that address:

1. Revenue Diversification (Approved January 2000) - A jurisdiction should adopt a policy(s) that encourages a diversity of revenue sources in order to improve the ability to handle fluctuations in individual sources.
2. Fees and Charges (Approved June 2010) - A jurisdiction should adopt policy(s) that identify the manner in which fees and charges are set and the extent to which they cover the cost of the service provided.
3. Use of One-Time Revenues (Approved January 2000) - A jurisdiction should adopt a policy(s) discouraging the use of one-time revenues for ongoing expenditures.
4. Use of Unpredictable Revenues (Does not exist – will be added to updated fiscal policies). A jurisdiction should adopt a policy(s) on the collection and use of major revenue sources it considers unpredictable.

Expenditure Policies

The expenditures of jurisdictions define the ongoing public service commitment. Prudent expenditure planning and accountability will lead to fiscal resiliency. At a minimum, jurisdictions should have policies that address:

1. Debt Capacity, Issuance and Management (City Charter Section 1008 and City Approved Policy January 2000 – currently being updated) - A jurisdiction should adopt a policy(s) that specifies appropriate uses for debt and identifies the maximum amount of debt and debt service that should be outstanding at any time.
2. Reserve or Stabilization Accounts (Updated November 2009) - A jurisdiction should adopt a policy(s) to maintain a prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures.

3. Operating/Capital Expenditure Accountability (City Charter Section 504) - A jurisdiction should adopt a policy(s) to compare actual expenditures to budget periodically (e.g., quarterly) and decide on actions to bring the budget into balance, if necessary. (NACSLB Practice 7.2)

Next Steps:

- The Finance Department will update or create fiscal policies to ensure continued relevance and to identify any policy gaps that need to be addressed with new policies.
- As part of the annual budget process, the Finance Department will bring forward existing and new fiscal policies for City Council review and consideration.

Yellow General Fund Reserves

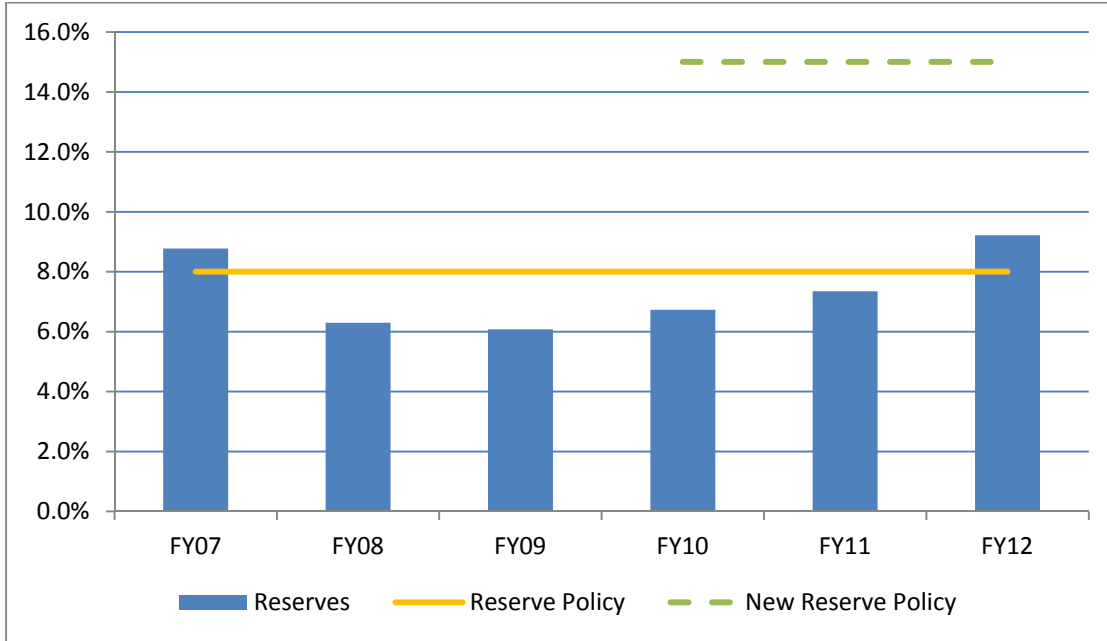
As part of the Fiscal Health Plan, the City revised the General Fund Reserve Policy as discussed below. In addition, the Finance Department has brought forward an updated policy on Travel and Training and Cell Phone Usage as well as recommended changes to the City Investment Policy. Additional policies currently under review or development, which will be brought forward for Council consideration, include a debt policy, donation policy, equipment replacement policy, and fiscal responsibility policy.

General Fund Available Reserves

In 1996, the City Council adopted the General Fund Operating Reserve Policy. The policy identified the goal of having 8% of the operating budget in available reserves (funds available to spend for emergency purposes).⁵ The reserve policy placed the City in the enviable position to withstand the State revenue takeaways during fiscal years 2005 and 2006 and provided the City with the opportunity to reinvest back into the community. With the increased dependency on development, continued State revenue takeaways and the severity of the recent economic declines, the reserve policy levels were no longer considered to be conservative. Therefore, in November 2009, as part of the City's Fiscal Health Plan, the City Council adopted a revised General Fund Operating Reserve Policy with the long-term goal of building the available reserves to 15% of the General Fund operating budget. In addition, the Council approved the establishment of two additional reserves in the General Fund, the Economic Contingency Reserve and the Catastrophic Event Reserves at 5% and 3% respectively. The additional reserve categories were established to provide for greater restrictions, increased security and accountability in the use of reserves.

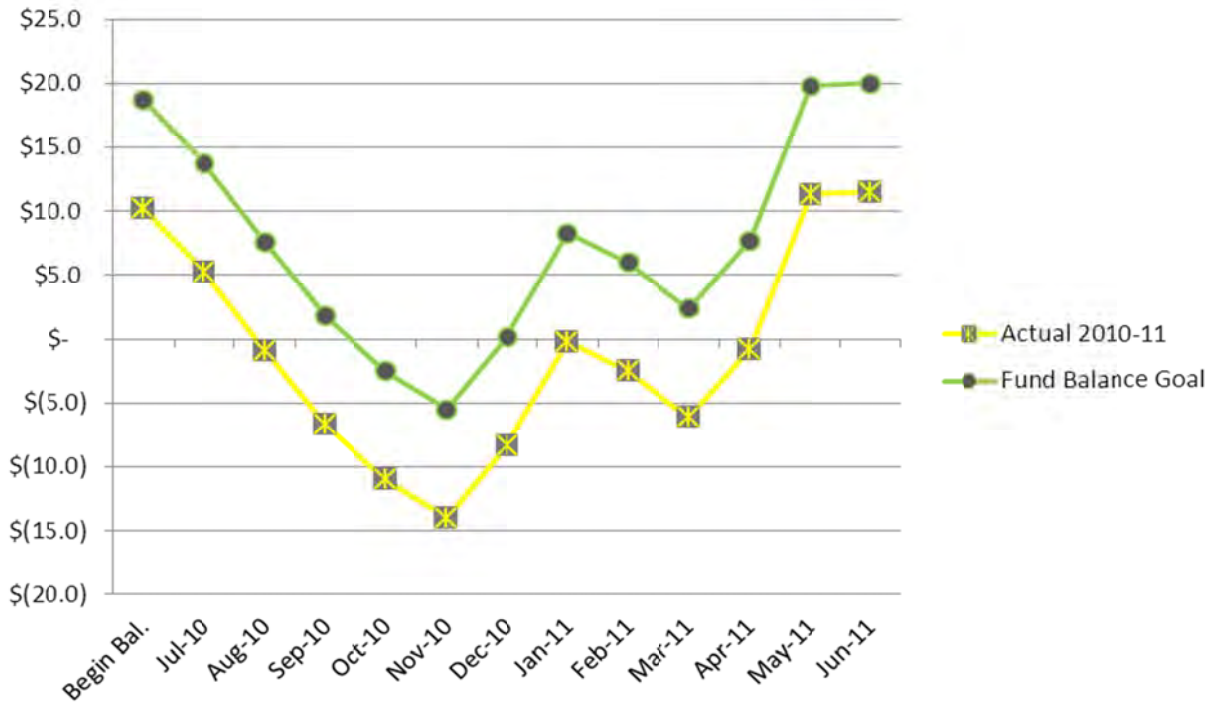
⁵ City of Chula Vista Council Policy #220-03 July 9, 1996

General Fund Available Reserves



This was the third consecutive year that the City ended the year with modest increases in the reserves which represents a significant accomplishment considering the magnitude of the economic recession experienced during this time period. In addition to protecting city services during times of economic downturn, healthy reserves also fund cash flow needs throughout the year. This is important as the collection/receipt of revenues do not coincide with the expenditure of funds. As noted in the chart below, the General Fund cash reserves fall into a deficit shortly after the beginning of the fiscal year and stays there until January when the City receives a significant share of property tax revenues and Sales Tax in-lieu payments. The second deficit begins in March and recovers after the second property tax and in-lieu payments are received. The revised policy goal of 15% reserves would improve the City's cash flows. The General Fund would still fall into a deficit until the receipt of property tax revenues but stay positive for the remainder of the year once those revenues are received. This chart demonstrates that the updated policy of 15% is not excessive and would improve the cash flows to the General Fund throughout the year, which is an important indicator of the City's solvency.

General Fund Cash Flow (in millions)



Over time, the City anticipates that the General Fund reserves will continue to increase slightly through the receipt of one-time revenues. This goes hand-in-hand with the City's conservative budget development policy which states that

*"Recurring revenues will fund recurring expenditures. One-time revenues will be used for capital, reserve augmentation, or other non-recurring expenditures."*⁶

This approach would protect service levels since one-time revenues are not budgeted to fund ongoing expenditures. Budgeting one time revenues for ongoing expenditures would create ongoing budget deficits resulting in continued instability to City operations.

Next Steps:

- The City will continue to follow conservative budget development practices with the goal of ending the year with a modest surplus to assist in achieving the 15% reserve goal over time without impacting City operations.

⁶ City Council Budget Development Policy January 2000.

Prior to 2009, staff reports submitted to the City Council provided focus on the current year financial impacts but minimal analysis regarding long-term impacts. The City has incorporated improved fiscal impact analysis of the short-term and long-term impacts in every staff report taken forward for Council consideration. This practice has been institutionalized into the organization which is providing greater focus on long-term financial impacts.

II. Expenditures

The City began making significant expenditure cuts in fiscal year 2006-07 and has continued to do so in order to avoid deficit spending. The City has reduced costs through the implementation of a variety of cost saving measures including the reduction or elimination of programs, reductions in staffing, and the elimination or deferral of previously negotiated cost of living salary increases. During the past year, the City also entered negotiations with the City's bargaining units that resulted in all employees, represented and non-represented, agreeing to contribute 100% of their share of pension costs. For comparison purposes, the following table reflects personnel costs and supplies and services budgets by service category - had the City maintained the programs and staffing at 2007 levels the City's operating budget would be approximately \$51.1 million larger than it is today. The implementation of these expenditure reductions has occurred over a series of budget balancing plans that have resulted in significant service impacts.

All Funds - Personnel
Expenditures and Supplies & Services Expenditure Cut Detail

Service Area	FY07-FY12 Reduction (\$)			FY07-FY12 Reduction (%)		
	Personnel	Supplies & Services	Total	Personnel	Supplies & Services	Total
Service Cuts						
Dev/ Maintenance	\$ (13,142,000)	\$ (1,921,000)	\$ (15,063,000)	-29%	-17%	-27%
Library	\$ (5,454,000)	\$ (1,577,000)	\$ (7,031,000)	-67%	-86%	-71%
Legislative/ Admin	\$ (4,825,000)	\$ (2,014,000)	\$ (6,839,000)	-28%	-46%	-32%
Recreation/ Nature Center	\$ (4,053,000)	\$ (914,000)	\$ (4,967,000)	-66%	-73%	-67%
Police	\$ (3,358,000)	\$ (815,000)	\$ (4,173,000)	-7%	-21%	-8%
Fire (Excluding Dispatch)	\$ (495,000)	\$ (604,000)	\$ (1,099,000)	-2%	-35%	-5%
Service Transfers						
Fire Dispatch**	\$ (1,122,000)	\$ 423,000	\$ (699,000)	-100%	1143%	-60%
Total	\$ (32,449,000)	\$ (7,422,000)	\$ (39,871,000)	-22%	-30%	-24%

COLA and pension costs eliminated or deferred **\$ (11,235,000)** \$ - **\$ (11,235,000)**

Total Cuts **\$ (43,684,000)** **\$ (7,422,000)** **\$ (51,106,000)** **-22%** **-30%** **-24%**

*Includes General Fund budget and other funds where the City directly budgets personnel expenditures (Development Services, Wastewater, Environmental Services, Transit, Fleet, ARRA and Police Grant Funds).

**Fire Dispatch services now provided via contract with City of San Diego, with no reduction in service levels.

Due to the changes in the organizational structure that have occurred during this time period some departments have been grouped into service categories on the preceding table. Below is a description of the departments and funds included in these categories:

- Development and Maintenance group includes Public Works, Engineering, Development Services, Wastewater, Redevelopment, Housing, Transit, Fleet Maintenance Staffing, Conservation, Environmental Services, General Services, and Community Development.
- Legislative and Administration includes City Council, City Clerk, City Attorney, City Manager, Finance, Human Resources, Information and Technology Services, ARRA, and Boards and Commissions.

Green **Employee Pension Reform**

Recognizing that creating a sustainable retirement plan for its employees is an important piece to achieving long term financial resiliency, the City pursued pension reform through formal negotiations with all bargaining groups. The negotiations lead to the following changes which resulted in both short-term and long-term savings to the City.

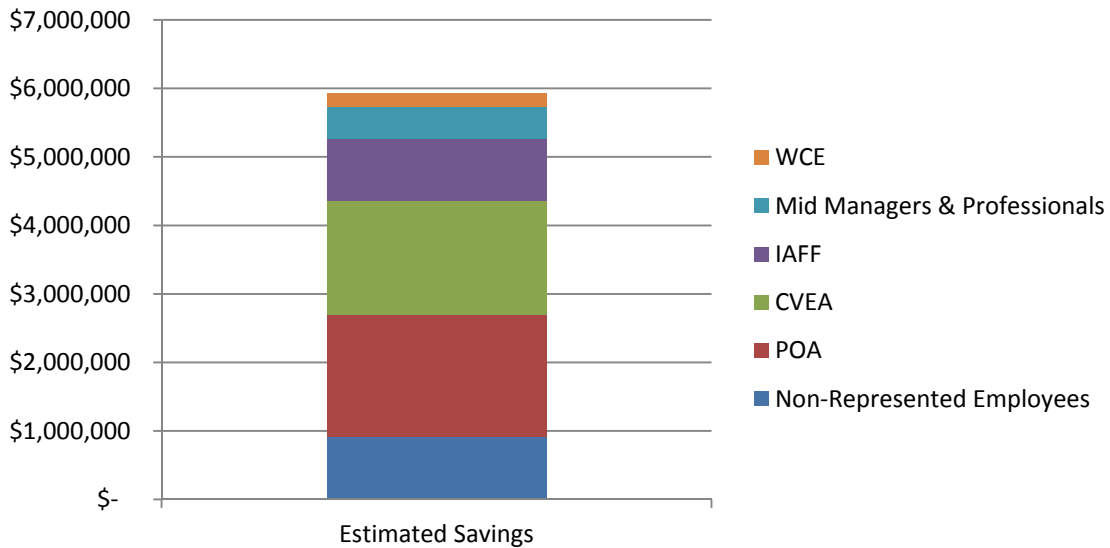
- The first component of pension reform dealt with the employee's share of pension cost. All City employees have agreed to contribute 100% of their share of pension costs. This

represents 8% of base salary for non-public safety employees and 9% of base salary for safety employees. This generated budgetary saving of approximately \$3.9 million in the General Fund in fiscal year 2011-12. Citywide it is anticipated that the ongoing annual savings projected will total approximately \$5.9 million when fully implemented. Pension contributions for Chula Vista Employees Association (CVEA) and Police Officers Association (POA) were phased in with the amount being contributed by employees increasing every six months until reaching the 8% contribution for CVEA and 9% for POA. The phasing in will be completed by July 2012 for both CVEA and POA.

- The second component of pension reform was the creation of a second retirement tier for employees hired after April 22, 2011. Although this does not create any short-term savings, over the long term the City has improved its position on addressing increasing pension liabilities, which is discussed further in this report.

The following chart reflects the estimated savings resulting from the employee pension contribution when fully implemented by employee group. The Non-Represented group includes the City Council, Executives, Senior Managers, Mid Managers and Professionals that are unclassified, and Confidential employees.

Pension Cost Savings by Employee Group



Note: Estimated annual savings reflects 8% and 9% employee contributions by miscellaneous and public safety employees respectively.

The following chart reflects the changes in the pension formula for a miscellaneous employee under the 3%@60 formula and under the new 2%@60 formula. As noted on the chart below the change in formula will result in an approximate reduction of 39% when comparing Tier 1 to Tier 2.

Miscellaneous Employee Example

Tier 1

Retirement Formula (3% @ 60)

Annual Salary	\$ 75,000	
EPMC (8%)	\$ 6,000	
Total Salary	\$ 81,000	

Years of Service		30
Benefit Factor		3.0%
Annual Pension (% of Pay)		90%

Total Annual Pension	\$ 72,900	
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Tier 2

Retirement Formula (2% @ 60)

Annual Salary	\$ 73,539	
EPMC (8%) Eliminated	\$ -	
Total Salary	\$ 73,539	

Years of Service		30
Benefit Factor		2.0%
Annual Pension (% of Pay)		60%

Total Annual Pension	\$ 44,123	
-----------------------------	------------------	--

Reduced Pension Benefits		-39%
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Began working in Chula Vista at age 30

Retired after 30 years at age 60

Tier 2 reflects final compensation based on average of three years as opposed to single highest year

The following chart reflects the pension formula for a public safety employee under the 3%@50 formula. Tier 2 employees for Public Safety will be eligible for retirement at age 55; pension benefits will be based on the 3%@55 formula. Under both benefit plans the annual pension amount cannot exceed 90% of final compensation. As noted on the chart below the change in formula will result in an approximate reduction of 10% when comparing Tier 1 to Tier 2 but will require the employee to work an additional five years.

Public Safety Employee Example

Tier 1

Retirement Formula (3% @ 50)

Annual Salary	\$ 75,000
EPMC (9%)	\$ 6,750
Total Salary	\$ 81,750

Years of Service	30
Benefit Factor	3.0%
Annual Pension (% of Pay)	90%

Total Annual Pension	\$ 73,575
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Tier 2

Retirement Formula (3% @ 55)

Annual Salary	\$ 73,539
EPMC (9%) Eliminated	\$ -
Total Salary	\$ 73,539

Years of Service	35
Benefit Factor	3.0%
Annual Pension (% of Pay)	90%

Total Annual Pension	\$ 66,185
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Reduced Pension Benefits	-10%
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Began working in Chula Vista at age 20

Tier 1: Retired after 30 years at age 50

Tier 2: Retired after 35 years at age 55

Tier 2 reflects final compensation based on average of three years as opposed to single highest year

Yellow CA Public Employees Retirement System Unfunded Pension Liability

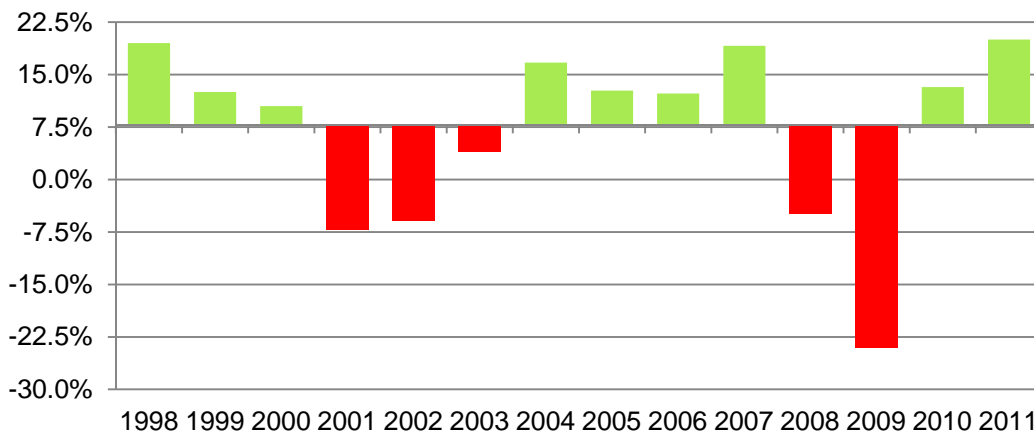
The City of Chula Vista has been a participant in the California Public Employees Retirement System (CalPERS) defined benefit retirement pension plan since 1948. CalPERS is an agency in the California State executive branch that manages pension benefits for more than 1.6 million California employees, retirees and their families.⁷

⁷ CalPERS Facts at a Glance-August 2011

As defined by CalPERS, "Retirement benefits are funded through contributions paid by contracting employers, member contributions, and earnings from CalPERS investments. Employer contribution rates are determined by periodic actuarial valuations under State law. The actuarial valuations are based on the benefit formulas the agency provides and the employee groups covered. These contribution amounts are expressed as a percentage of active member payroll reported to CalPERS."⁸ The actuarial valuations include assumptions regarding mortality, disability and retirement rates. In addition, economic assumptions on investment returns, salary growth and inflation are applied as well.

The increase in retirement costs is a significant budgetary challenge facing all governmental entities. The key factor driving the increased costs has been the significant investment losses experienced by CalPERS. Prior to fiscal year 2005-06, the CalPERS investment pool assumed a rate of return of 8.25% and any market gains (or losses) less than that amount could significantly affect the City's overall contribution rate. In fiscal year 2005-06, CalPERS adjusted their investment return assumption to 7.75% and have since adopted an asset smoothing method whereby losses are spread out over longer periods of time. The following graph shows the actual market rates of return for the CalPERS investment portfolio relative to the current 7.75% assumed rate of return. Due to the current market decline, unless investment returns improve the contribution rates will continue to increase causing additional financial strain on participating agencies.

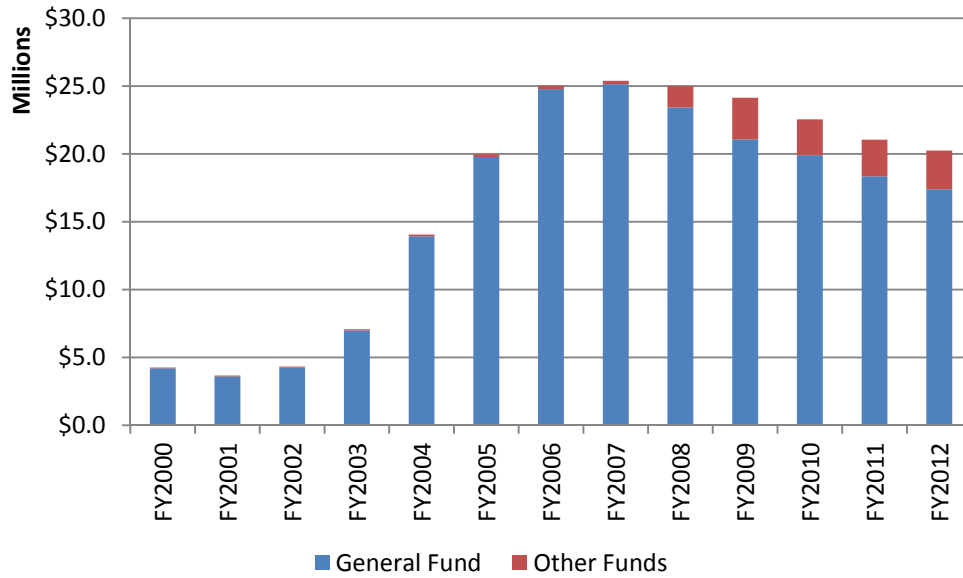
CalPERS Historical Market Value Rates of Return
Relative to Assumed Investment Return of 7.75%



Currently, the payments made to the retirement system equal 13.9% of the total City's General Fund budget. As discussed previously, in order to minimize additional layoffs and assist in balancing the budget, City employees agreed to pay their full share of pension contributions. In addition, the establishment of a second tier retirement system will in the long-term alleviate some of the significant challenges with funding pension liabilities.

⁸ CalPERS

Pension Costs Fiscal Year 2000 to Fiscal Year 2012



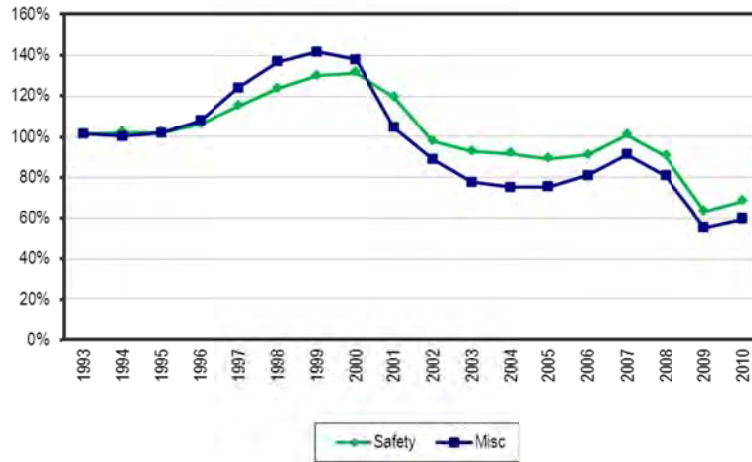
Notes:

1. FY 2000 to FY 2011 represents actual costs, FY 12 represents budget.
2. Starting in FY 2008, staff costs funded by other funds were transferred from the General Fund to the respective funding source.
3. The costs represented above do not reflect the debt service for the pension obligation bonds.
4. FY2010-11 and FY 2011-12 reflects lower pension costs in part because of employee contributions toward retirement costs.
5. The decrease beginning in FY 2008 reflects the reduction in staffing during this time period.

Unfortunately, these changes do not address the City's current unfunded pension liabilities. The funded status of a plan is a measure of how well it is funded or "on track" with respect to assets vs. accrued liabilities. The City of Chula Vista's CalPERS pension funded status, based on the market value of assets, has dropped dramatically to 68.0% for public safety and 59.5% for the non-public safety or miscellaneous groups. This reflects an unfunded liability of \$84.2 million for miscellaneous employees and \$40.1 million for public safety employees.⁹ As discussed previously, with the significant investment losses in 2008 and 2009, the funded status for all CalPERS participating agencies has dropped significantly.

⁹ CalPERS Annual Valuation Report as of June 30, 2010 – Issued October 2011

City of Chula Vista - CalPERS Funded Status
Based on Market Value



Note: Data as of June 30 of each year.

The funding of pension liabilities remains a significant credit factor for state and local governments. Standards & Poor’s views pension obligations as long-term liabilities that should be managed in a way that does not adversely affect the bond issuer’s ability to make debt service payments. The historical and forecast trends in pension funding are as important, if not more so, than the specific liability level at a single point in time.¹⁰ In other words, the credit agency assesses how the annual required pension payments impact the City’s ability to meet its annual bonded debt service payments. This is also analyzed by the City as part of the Five-Year Financial Forecast which takes into account pension cost projections provided by CalPERS. More information on pension costs are provided in the Five-Year Financial Forecast presented later in this document.

Even though the unfunded liability is high, this category is classified as yellow because the City continues to pay its annual required contributions as calculated by CalPERS. In order to move from yellow to green status in this category, the City’s unfunded liability would need to achieve an 80% funded status or improve by \$130 million to \$521 million based on the market value of the City’s plan. It is anticipated that the City’s unfunded liabilities will improve over the long term as investment returns improve. In addition, the unfunded liabilities will also improve over the long term as the City begins generating savings due to the creation of a second retirement tier. These are long-term pension funding strategies. In the short term, the City could take the steps discussed below to reduce its unfunded liability.

Next Steps:

- Participate in the Annual Lump Sum Payment Option where the City would pay its full annual required contribution in July instead of through the biweekly payroll process. Under this proposal the City would pay the full annual required contribution not the discounted amount offered under the lump sum prepayment option which takes into consideration an

¹⁰ Standards & Pools U.S. Public Finance Publication Date October 12, 2006, Republished November 11, 2010

assumed investment return. The difference between these two amounts would allow the City to pay down the unfunded liability with little or no additional budgetary impact. This could result in additional investment earnings generated by the CalPERS pension pool with the goal of reducing the unfunded liability. The decision to participate will be determined by the Finance Director who will review cash flow liquidity and projected investment returns of the City's investment pool to determine if making a lump sum payment would be recommended.

- As an alternative the City can pay CalPERS based on budgeted payroll versus actual payroll which will result in a favorable reduction of the unfunded liability.

The City will continue to monitor the discussions and debates about "adequately" funding pension benefits. Any additional recommendations will be addressed in the City's Long-Term Financial Plan as they will require additional analysis and discussion.

Green OPEB - Other Post-Employment Benefits

Beginning in fiscal year 2007-08, in accordance with Governmental Accounting Standards Board Pronouncement (GASB) 45, governmental entities were required to identify and disclose the liability and funding status of other post-employment benefits (OPEBs) similar to pension plans. This is a significant change in accounting, reporting and disclosure for OPEBs, which had been accounted for on a pay-as-you-go basis. The most common types of post-employment benefits include health care insurance, life insurance, long-term care and dental insurance for retirees.

The City of Chula Vista does not directly pay for post-employment health benefits but does subsidize the health care insurance premiums paid by retirees who opt to continue to participate in the City's retiree health care program. The costs associated with the retirees are pooled with the active members; this pooling creates an artificially low rate for retirees. GASB believes that retirees who are allowed to pay the same health care benefit rate as active employees are being subsidized and the indirect cost of this "implicit subsidy" needs to be recognized as an OPEB liability by the governmental entity. In effect, the City is paying a higher insurance premium due to the subsidized rates for retirees and accruing an unfunded liability for subsidized health benefits being earned by current employees and existing retirees.

As a result of GASB 45, in 2009 the City underwent an actuarial study which calculated its estimated unfunded retiree medical liability at \$11.9 million.¹¹ This is an estimated liability based on participating retirees and current employees (Tier 1 only) which may participate in the future. This is the same accounting and financial reporting requirement used for pension benefits which require that the cost of benefits be recognized as a liability as benefits are earned. During recent negotiations, all bargaining groups agreed to eliminate the post-employment health care benefit for any new employee hired after April 22, 2011, which coincides with the beginning date of the second tier pension plan. With the anticipated increases in health care cost, the City's liability will increase resulting in additional funding requirements. Due to the phasing out over the long term of

¹¹ City of Chula Vista Comprehensive Annual Financial Report as of June 30, 2010.

retiree health care benefits, the City will continue to fund these benefits on a pay as you go basis for the foreseeable future.

This benefit is only offered to employees that retire from the City of Chula Vista and extends from the time the employees retire until age 65. Approximately 35% of retirees elect to purchase insurance through the City. The following table reflects the estimated cost of the retiree health care subsidy. As stated earlier, this subsidy is reflected in higher than expected health care premiums for active employees and lower than expected health care premiums for the retirees.

Estimated Cost of Retiree Health Care Subsidy

Description	Number of Participants	Cost of Annual Subsidy	Average Subsidy
Retiree Only	67	\$ 170,800	\$ 2,500
Retiree + 1	40	\$ 191,600	\$ 4,800
Retiree + Family	17	\$ 93,600	\$ 5,500
Total	124	\$ 456,000	

Notes:

1. Cost of retiree health care subsidy based will vary based on the number of participants and the cost of health care premiums.
2. Subsidy amount based on 2010 Barney and Barney analysis.

Next Steps:

- Conduct additional analysis and develop recommendations on how to mitigate increasing health care costs as part of the Long Term Financial Plan in order to address anticipated retiree health care cost increases.

Yellow Debt Service

Due to the significant growth in development resulting in increased population and service demands, the City financed several major capital projects such as the public works yard, the police facility and the expansion of the civic center through debt issuances. The debt service payments for these capital projects are funded out of various sources such as the General Fund, Residential Construction Tax Fund and Development Impact Fee Fund.

Outstanding Bond Issuances

Bond Issuance	Original Issuance	*Outstanding Balance	Term	Interest Rate
2002 Police Facility	\$60,145,000	\$57,790,000	30 years	4.93%
2004 Civic Center Phase I/Western CV Infrastructure	\$37,240,000	\$33,180,000	30 years	4.65%
2006 Civic Center Phase II/Nature Center	\$20,325,000	\$18,495,000	30 years	4.32%
2010 Civic Center Phase III/ Corp Yard Refunding	\$29,355,000	\$29,355,000	30 years	5.51%
Total	\$147,065,000	\$138,820,000		

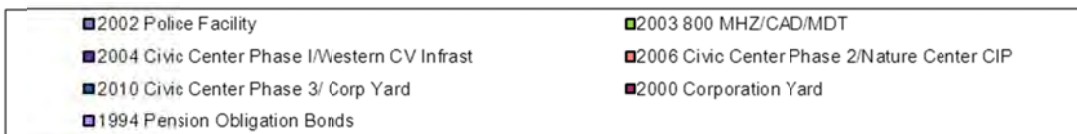
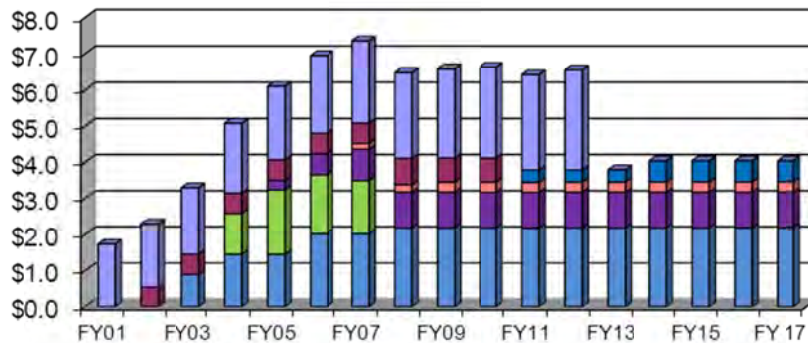
Notes:

1. 2004 COP includes funding for Civic Center Phase I (\$26.7 million) and Western Chula Vista Infrastructure (\$10.5 million).
2. 2006 COP includes funding for Civic Center Phase II (\$18.2 million) and the Nature Center CIP (\$2.1 million).
3. 2010 COP includes funding for Civic Center Phase III (\$12.9 million) and refunded the 2000 COP for the Corporation Yard Project (\$16.5 million).
4. Outstanding balance is as of June 30, 2011. The Pension Obligations Bonds were paid in full in September 2011 and are no longer reflected in the outstanding bond issuances table.

The General Fund's annual debt service commitment in fiscal year 2011-12 is approximately \$11.8 million, or 9.5% of the General Fund operating budget. However, the General Fund actually pays \$5.9 million, with the remaining \$5.3 million paid from available Public Facility Development Impact Fees (PFDIF) and \$0.6 million from Residential Construction Tax. The \$5.9 million represents approximately 4.7% of the General Fund operating budget, which would be considered an average debt burden for a local governmental entity. With the final Pension Obligation Bond debt payment made in fiscal year 2011-12, the General Fund debt burden will drop further to approximately 2.8% of the total estimated fiscal year 2012-13 operating budget.

General Fund Debt Service Schedule

Millions



Notes:

1. The final debt service payment for the 1994 Pension Obligation Bonds was made in September 2011.
2. Debt Service payments per bond issuance are level. The chart reflects high and low points in overall debt payments due to new bond issuances being added and debt expiring over time at different points.

The annual debt payments of \$5.3 million, which are funded out of the Public Facilities Development Impact Fee Fund (PFDIF), are secured by the General Fund. The impact fees are collected from the builders/developers in conjunction with the building permit process. At the time the debt was issued, based on projected permits provided by the Planning & Building Department, it was assumed that development would be sufficient to cover the debt obligations.¹² Beginning in 2007, with the collapse of the housing market, the PFDIF fund has experienced cash flow strain. In order to improve the cash flow in the PFDIF and to avoid additional fiscal challenges in the General Fund, the City Council approved an inter-fund loan from the Transportation Development Impact Fee Fund (TDIF) to the PFDIF in order to meet debt service obligations. Based on recent cash flow projections of the TDIF fund, the inter-fund loan is not anticipated to delay or impact any TDIF scheduled projects. In addition, in 2010 the City pursued restructuring some debt obligations. Through the debt restructuring, the PFDIF was reimbursed for expenses incurred on the construction of the Civic Center Phase III project which provided cash flow for annual debt service payments through fiscal year 2012-13.

Based on current cash flow projections, the PFDIF will be able to meet its debt obligations through fiscal year 2017 without impacting the General Fund or drawing down bonded reserves. This projection is based upon conservative development projections (average of 479 multi-family building permits per year). Beyond that point, an average of 710 building permits per year would have to be issued in order to generate sufficient PFDIF revenues necessary to meet its debt obligations. In fiscal year 2010-11, the City issued 844 residential building permits (352 single-family and 492 multi-family). As of November 2011, the City is projecting a total of 700 building permit issuances for calendar year 2011. Another option which may be considered if revenues fall short is the restructuring of the Police Facility debt.

PFDIF Projected Cash Flow

	FY 2010-11 Actual ⁵	FY 2011-12 Projected	FY 2012-13 Projected	FY 2013-14 Projected	FY 2014-15 Projected	FY 2015-16 Projected	FY 2016-17 Projected
Debt Service Reserve (City Funds) ¹	\$ (585,490)	\$3,461,224	\$5,403,684	\$4,790,440	\$2,530,040	\$1,133,404	\$619,383
<u>Revenues</u>							
Investment Earnings	\$ (8,849)	-					
DIF Fee Revenue ²	\$4,208,202	\$1,993,500	\$3,101,000	\$3,987,000	\$4,873,000	\$5,759,000	\$5,759,000
Total Revenues	\$4,199,353	\$1,993,500	\$3,101,000	\$3,987,000	\$4,873,000	\$5,759,000	\$5,759,000
<u>Expenditures</u>							
COP Debt Service ³	\$ (19,636)	-	\$ (3,663,204)	\$ (6,196,360)	\$ (6,269,636)	\$ (6,273,021)	\$ (6,276,063)

¹² Council Presentation February 14, 2006

CIP & Non-CIP Expenditures	\$ (133,003)	\$ (51,040)	\$ (51,040)	\$ (51,040)	-	-	-
Total Expenditures	\$ (152,639)	\$ (51,040)	\$ (3,714,244)	\$ (6,247,400)	\$ (6,269,636)	\$ (6,273,021)	\$ (6,276,063)
Debt Service Reserve (City Funds)¹	\$3,461,224	\$5,403,684	\$4,790,440	\$2,530,040	\$1,133,404	\$619,383	\$102,320
Fee Paying Residential Development Units ⁴	844	225	350	450	550	650	650

Notes:

¹ Does not include debt service reserve funds held with fiscal agent or deferred revenues, both of which are available to meet debt service obligation.

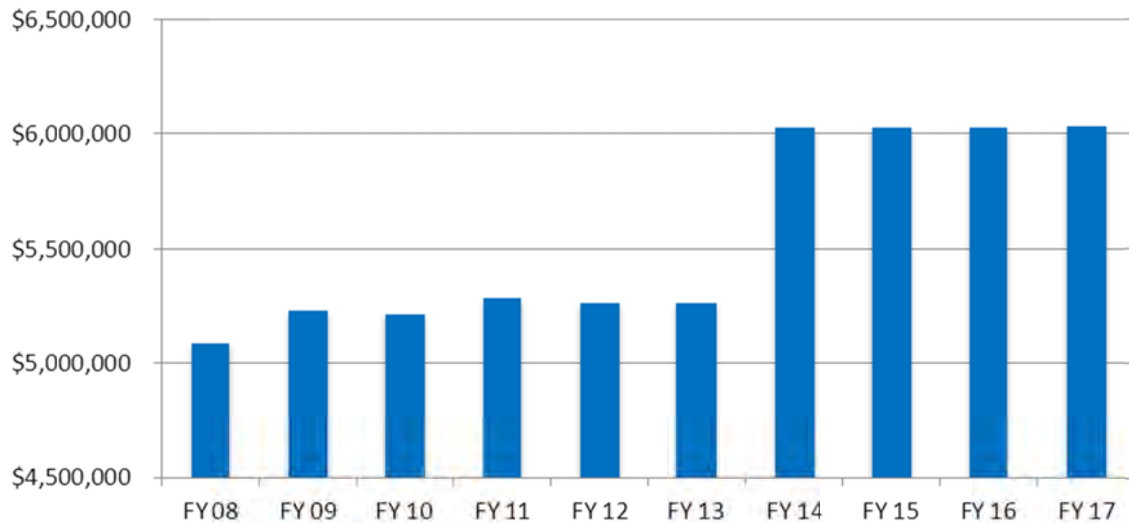
² Actual FY 2011-12 DIF fee revenues as of 11/15/2011 total \$1.2 million; FY 2011-12 through FY 2016-17 revenues reflect projected fee paying multi-family residential development.

³ FY 2010-11 through FY 2012-13 COP payments reflect application of bond proceeds from 2010 Refunding COP and available balance of COP debt service funds.

⁴ FY 2010-11 actual building permits issued: 352 single family + 492 multi-family; FY 2011-12 through FY 2016-17 reflects projected fee paying multi-family residential development.

⁵ FY 2010-11 actual DIF fee revenues do not mathematically tie to fee paying residential development units. This disconnect is the result of fee deferral programs (fees not collected at building permit issuance).

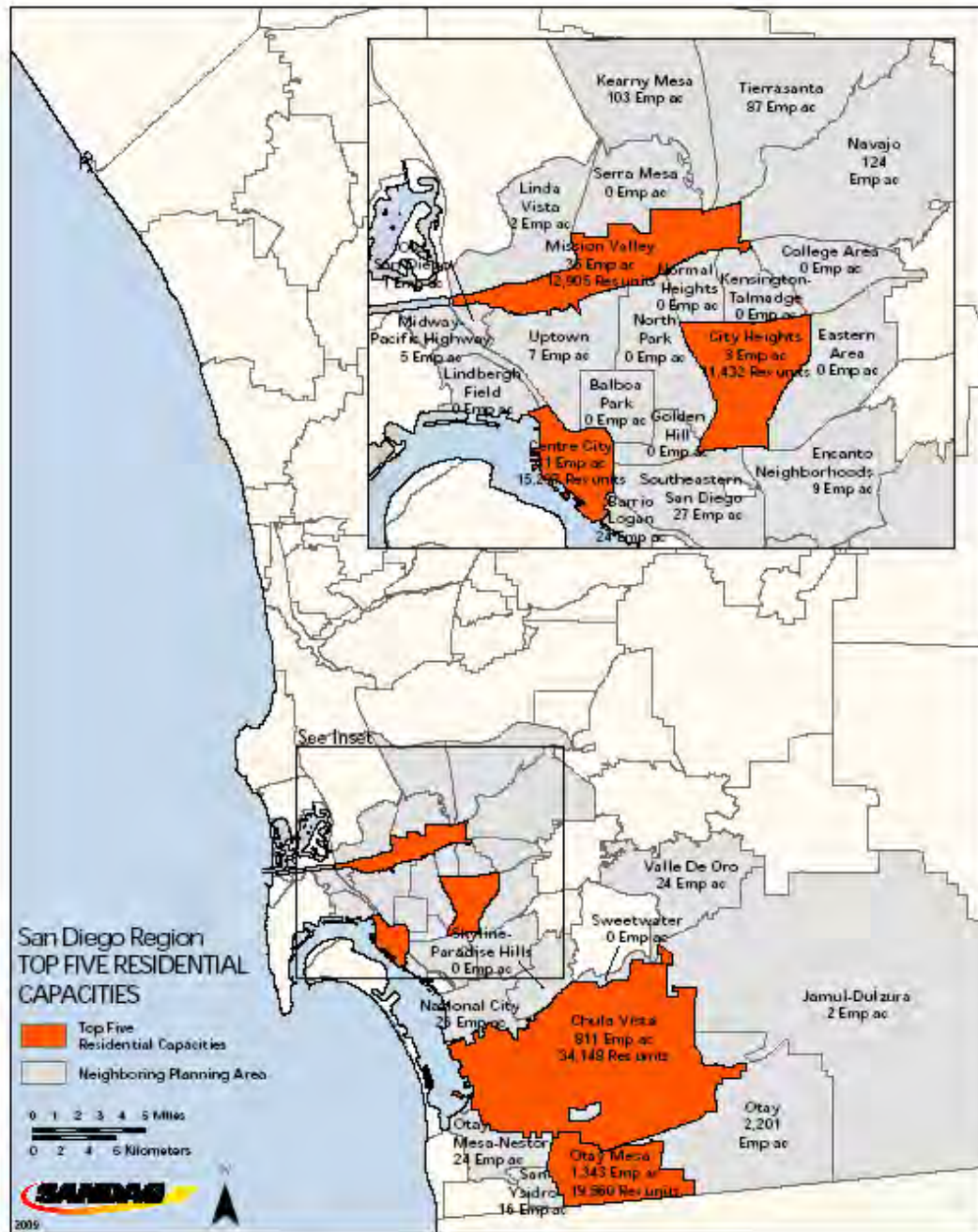
PFDIF Debt Service Schedule



Note:

1. PFDIF debt service payments are for construction of Police Facility, Civic Center Phases 1-3 and Corporation Yard.
2. Payments increase in FY 2014 due to the 2010 COP debt restructuring.

The following map was developed by the San Diego Association of Governments (SANDAG) and was discussed in SANDAG's Employment and Residential Land Inventory Report issued September 2009. The map depicts the five residential areas with the most residential capacity in the County of San Diego Region. As depicted, the City of Chula Vista has significant residential capacity which will support debt service payments over the long term.



Next Steps:

- In order to move this category from yellow to green, the PFDIF debt needs to generate approximately \$6.3 million in PFDIF fees per year. Since this is dependent on new development, the use of these funds should be restricted for bonded debt and TDIF loan payments. This may further delay the construction of the next public facility as sufficient funds need to be set aside to avoid impacting current services funded out of the General Fund.

Throughout the United States, aging and deteriorating public infrastructure is in desperate need of repair and replacement. Most of the current infrastructure in the United States, above and below ground, was designed and constructed more than 50 years ago. As Chula Vista celebrates its 100th year, it too struggles with aging infrastructure. For example, the City has gone through significant growth as a result of new planned communities over the past 10 years. Within the last decade, these new developments have added 73 miles of public streets and associated elements such as drainage, sidewalks, traffic signals and signage in the newly dedicated Rights of Way. This increase of approximately 21 percent brings the total to 430 miles of roadways as of 2011. Now the responsibility of the City of Chula Vista, these public assets are maintained with less staff and funding than were available in 2001. The continued addition of public roadways, parks, libraries, recreation centers, fire and police stations without additional resources for maintenance has exacerbated the City's inability to preserve its infrastructure and facilities.

Moreover, the City is starting to experience infrastructure failures in "new" eastern communities of the City. Although they are considered new by the 100-year standard, the initial phases of Eastlake were built over 25 years ago. For example, many pavement and sidewalk segments in the Eastlake community have necessitated expensive reconstruction due to the lack of preventative maintenance. The City's ability to address these needs is further aggravated by more established sections of the City, primarily in western Chula Vista, which require more extensive and expensive repairs. As a result, most of the limited, annual Capital Improvement Program Budget is dedicated to critical infrastructure needs on the west side. Like most other agencies throughout the United States annual capital improvement funding has not kept pace with citywide capital maintenance needs.

Like many municipalities, the City of Chula Vista has an enterprise sewer fund for its wastewater collections system. This is the only City capital asset, which is supported by a dedicated revenue stream that keeps pace with its maintenance costs.

Other infrastructure dedicated revenues that come to the City include Federal and State Gasoline Excise Taxes and licensing fees and the regional *TransNet* sales tax. Per State law, these revenues can only be spent on roadway related expenditures. Although pavement preservation and rehabilitation projects represent the largest part of the Capital Improvement Program, these dedicated revenues are merely a fraction of the funds needed to preserve the City's roadway assets. The resulting funding gap for roadways must compete with the needs of all other city assets and services. Although "one time" revenues are occasionally made available from State or Federal grants or appropriations (e.g. American Restoration and Recovery Act) most of the needed revenue will rely on the City's General Fund.

The pavement preservation/rehabilitation projects occur on a citywide basis and are prioritized through a comprehensive process that the City performs every year to assess the most cost efficient manner to preserve and rehabilitate the City's roadways.

Significant challenges continue to face the City due to deteriorating infrastructure that has exceeded its service life. The most challenging unfunded asset to manage continues to be storm

drains; the City continues to experience failures of severely deteriorated corrugated metal pipe (CMP) annually. These failures are currently addressed in a reactive emergency basis due to the lack of funding for proactive preventative maintenance/rehabilitation. The estimated cost to address failing CMP “now needs” is \$14 million.

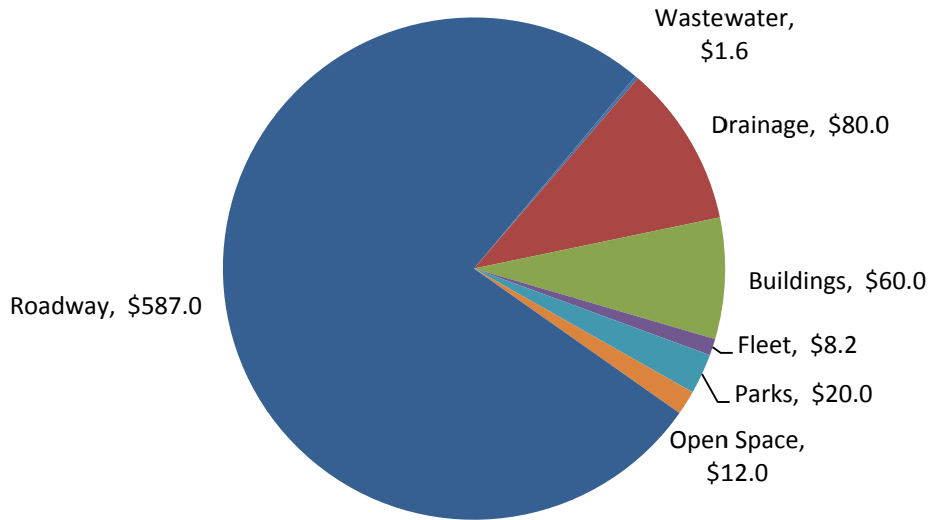
Also of paramount importance is the lack of available funding to maintain City-owned facilities such as parks, libraries, fire and police stations, Civic Center, parking lots, recreation centers and historic buildings such as the Women’s Club and Rohr Manor (indefinitely closed awaiting repairs).

The following sections of this report summarize the preliminary status of the various infrastructure categories as we develop our Asset Management Program. Due to the significant fiscal constraints in the General Fund, allocation of resources for preservation/rehabilitation will not likely be available in the foreseeable future. Alternative funding options will be considered as part of the City’s Long Term Financial Plan. Due to the magnitude of the funding gap, the financial strategy proposed will likely include the recommendation for a citywide bond measure to provide funding for citywide infrastructure needs. Cities nationwide are resorting to new funding strategies to maintain aging infrastructure. The City of San Diego and County recently passed a Bond Measure for needed infrastructure. Some Cities and Counties have gone to the voters and levied a cent per parcel on the property tax for maintenance of streets.

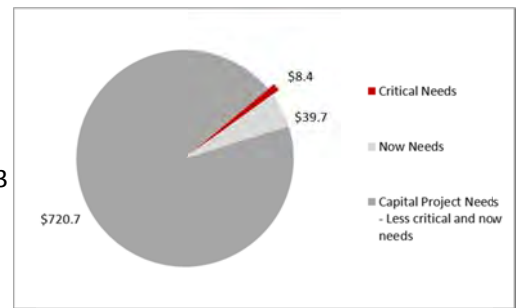
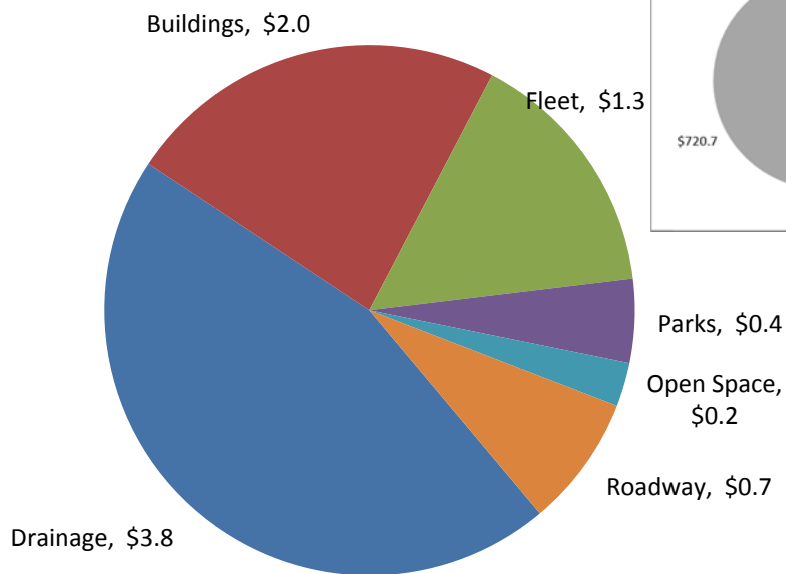
In recent past the City has also used loans to fund infrastructure improvements. A Section 108 loan in the amount of \$9.5 million was acquired to make infrastructure improvements in the Castle Park Assessment District resulting in an annual debt payment obligation of \$746,000 from the Community Development Block Grant program. Also, in (insert date) a Chula Vista Certificate of Participation (COP) was issued in the amount of \$10.5 million for western Chula Vista improvements which included \$ to address priority 1 CMP repairs. The COP has an annual debt payment obligation of \$700,000, which is paid for from the Residential Construction Tax (RCT) fund.

Lastly some agencies are recommending an annual General Fund commitment (sinking funds). A long-term goal is to increase the General Fund investment towards preservation and rehabilitation Capital Improvement Projects.

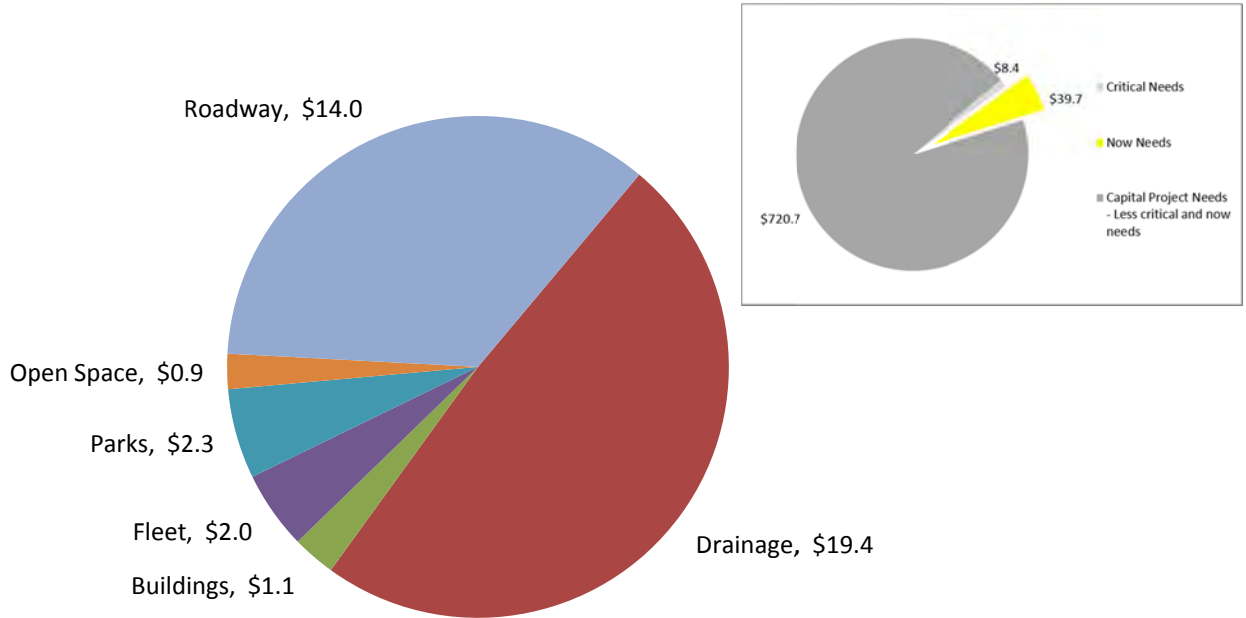
Asset Management Systems – Total \$768.8 Million
 Backlog and Pending Projects by Project Type in millions



Asset Management Systems
 Backlog and Pending Projects – Critical Needs Project Type (Total \$8.42 M)



Asset Management Systems
 Backlog and Pending Projects – Now Needs Project Type (Total \$39.7 M)



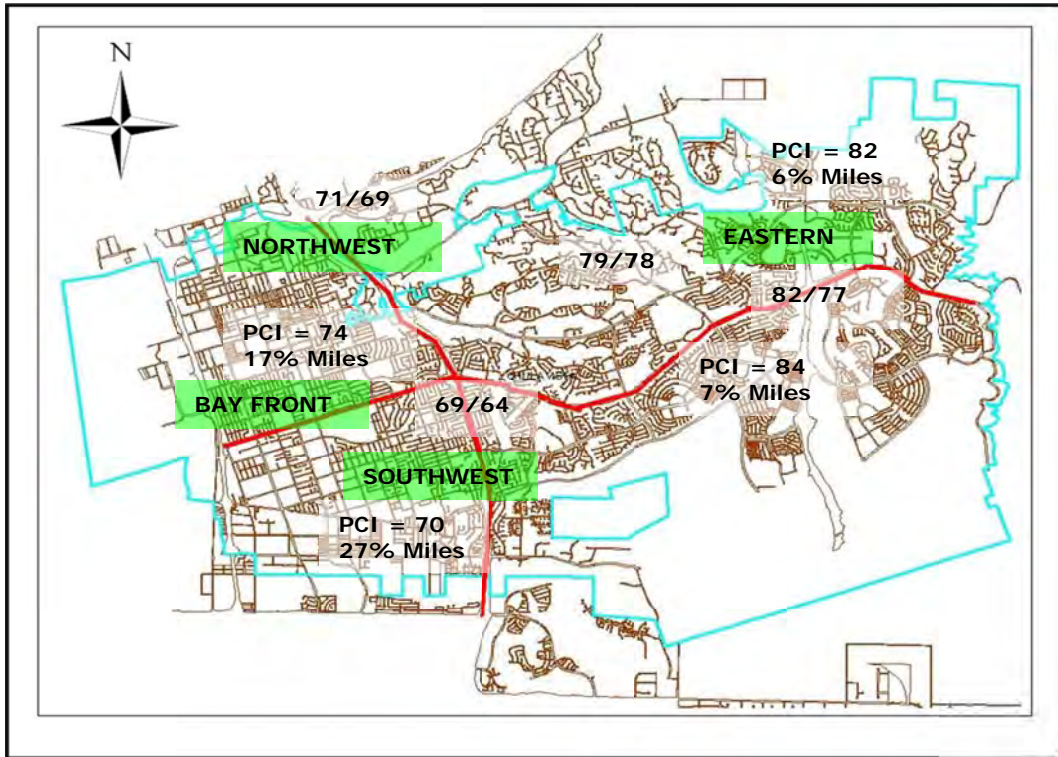
Next Steps:

Further analysis of funding options and alternatives will be included in the City's upcoming Long Term Financial Plan for the City Council's consideration.

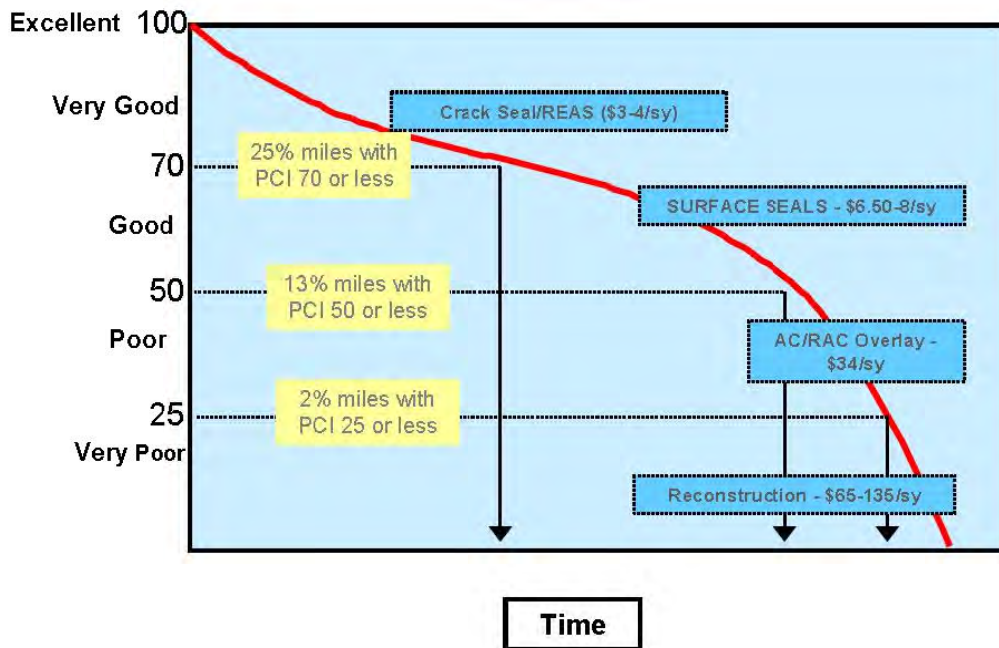
Red Roadway Management System (RMS)

The largest and most expensive element of the RMS is our street pavements. The City utilizes a comprehensive pavement management system, which forms the basis for the development of current and future pavement rehabilitation projects. Since completion of the citywide pavement condition assessment and presentation at a Council workshop on pavement management in fiscal year 2006-07, the City has initiated and/or completed construction on 355 lane miles of the identified pavement preservation/rehabilitation projects. These projects cost approximately \$15.1 million as of December 2009. Despite this investment, the citywide Pavement Condition Index (PCI) dropped to 73 in 2010 as compared to 75 in 2007. The citywide PCI will be recalculated after completion of current pavement rehabilitation contracts and after the 2011 citywide pavement condition assessment is complete.

The following PCI Map shows the average 2006 and 2010 PCI by area:

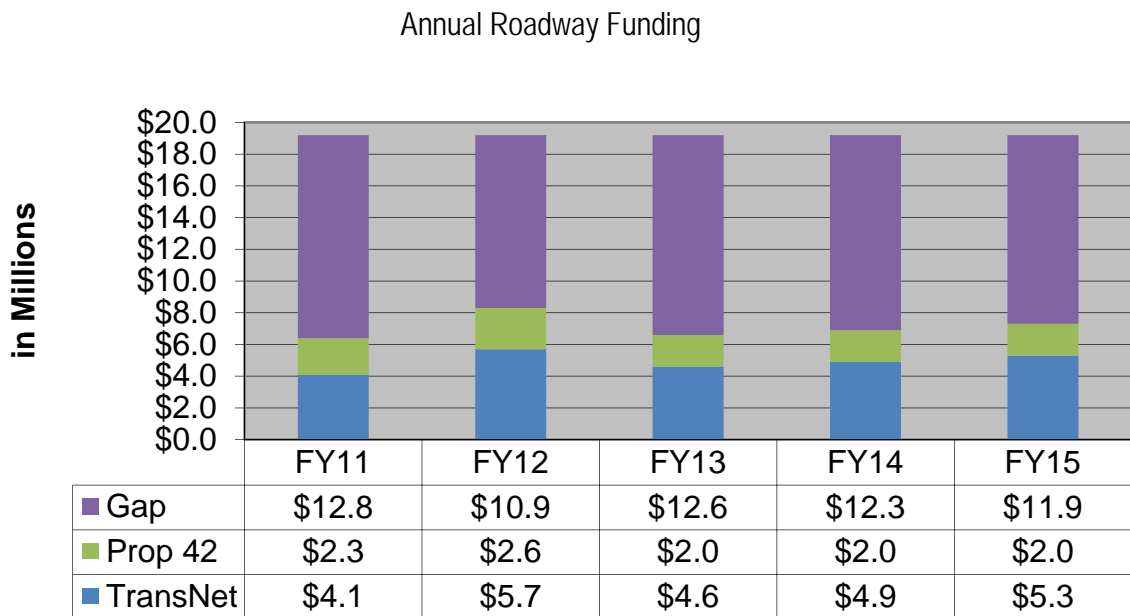


Pavement Deterioration Curve



Council adopted Resolution 2007-080 on April 5, 2007, reaffirming Council's commitment to the implementation of a Pavement Management System which emphasizes maintenance efforts to preserve good pavement in contrast to a "worst first" strategy, which focuses on streets that require expensive treatments such as reconstruction.

Also in the April 2007 Workshop, the City's consultant estimated the amount of funds it would take to eliminate the City's pavement preservation backlog. The consultant's estimated amount was \$19.2 million per year over a 10-year period. Although the City had a large *TransNet* fund reserve to use for its pavement program over the past few years, there continues to be a significant gap between the annual available pavement preservation revenue and the amount needed per year. The following graph shows the revenue gap from fiscal year 2011 through fiscal year 2015.



The graph includes limited duration funding, such as Proposition 1B and the ARRA Swap, received during fiscal years 2009 and 2010. Total *TransNet* funds were less than anticipated during these years, and this trend may extend into the future. If the State borrows from regular funding sources, such as Gas Tax, there will be more competition for limited *TransNet* funds. With regard to other street rehabilitation efforts, the City continues to focus significant attention and resources on street improvements in western Chula Vista. A number of projects have been undertaken in the past several years, including over \$12 million of street rehabilitation projects, as well as significant sidewalk improvements. That effort will continue and will also include the formation of additional assessment districts on a number of streets in the Castle Park neighborhood.

Next Steps:

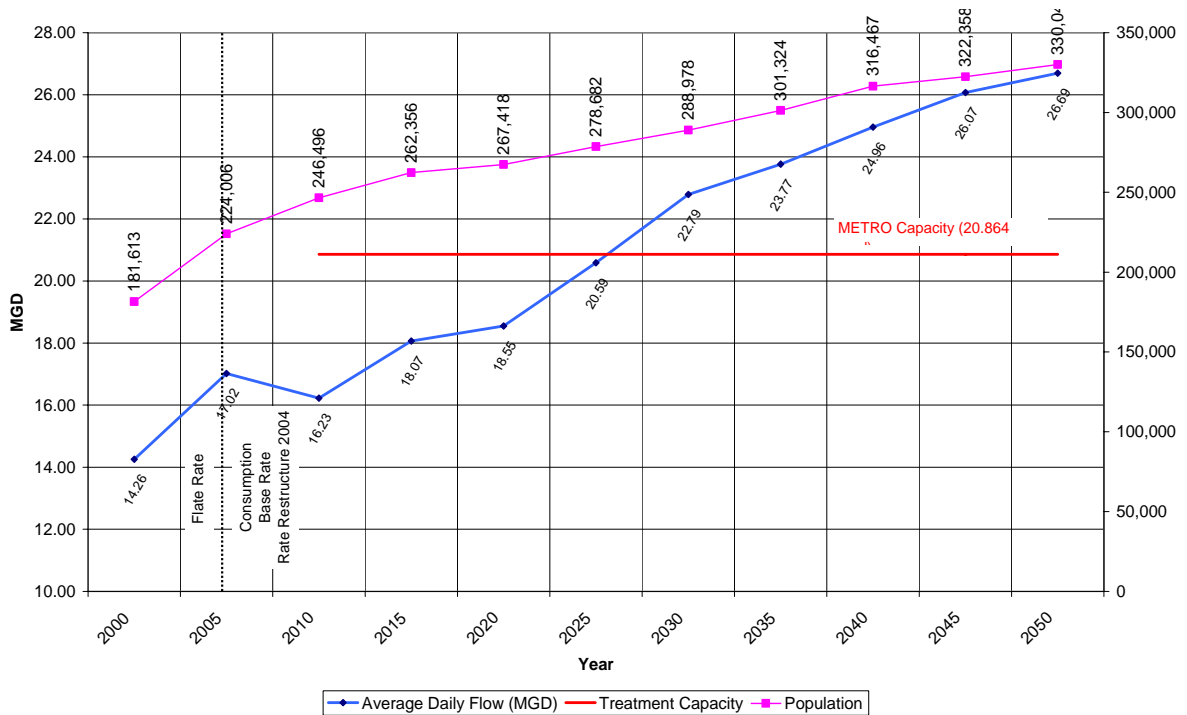
- Service level recommendations will be included in the upcoming PCI update report to the Council. The consultant is in the final phase of the citywide streets assessment, which is

estimated to be completed by the Infrastructure workshop scheduled for March 2012. Based the results from the study and service level commitment funding options will be included in the City's Long-Term Financial Plan for City Council consideration.

Green Wastewater Management System (WMS)

The City currently owns 20.8 MGD of treatment capacity in the Metropolitan Wastewater system (Metro) administered by the City of San Diego. The average daily flow this year has been 16.3 MGD. Per the 2005 Wastewater Master Plan, the City will need approximately 26.2 MGD at build out. At this time, the City is looking into several options to secure the ultimate treatment capacity required. These options include the purchase of additional treatment capacity from Metro and the construction of the City's own treatment plant. The City will need additional treatment capacity in approximately 10 to 15 years with current growth projections (per GMOC) and water conservation efforts.

Average Daily Flow Trend



The City continues to focus on its Annual Sewer Rehabilitation Program, which expends approximately \$1.0 million to \$2.0 million annually for the replacement and rehabilitation of sewer pipes, high hats, access roads, and manholes. The City also utilizes standardized evaluation and ranking criteria in televising and evaluating the condition of sewers in order to ensure that the most critically impacted sewer infrastructure is replaced or rehabilitated first. Up to now, the funds collected from City's rate payers have been sufficient to maintain and operate the City's wastewater collection system as well as to pay for the treatment of the wastewater. In order to ensure the future adequacy of the sewer funds, the City is currently undergoing a sewer rate case study that will propose the sewer rates for the next five years. One of the issues that could

significantly impact the sewer rates for the City is the Point Loma Treatment Plant (PLTP) Secondary Treatment Waiver. In 2010, the City of San Diego was successful in obtaining a five-year waiver that allowed the continued operation of the PLTP at an advance primary level of sewer treatment before discharging into the ocean. If San Diego is not successful in obtaining another waiver in 2015, the sewer rates for the City of Chula Vista will increase substantially. This increase will help pay for the upgrade to the PLTP to a secondary level of sewer treatment.

Next Steps:

- The Wastewater rate study approved by the City Council on December 13, 2011 will include a recommendation for a Wastewater reserve policy to address future fund requirements and stabilize rates to the ratepayer as well as address potential short-term PLTP impacts. Additionally, Sewer flows will continue to be monitored to address future City sewer capacity needs. Also in late January 2012 staff will also bring forward a recommendation to acquire property in the event future capacity needs are warranted as a result of the recent Capacity Study completed by RMC.

Red Drainage Management System (DMS)

During the last several years the City has evaluated the condition of its storm drain facilities, which includes approximately 67,000 lineal feet of corrugated metal pipe (CMP) storm drain within the City limits. CMP storm drains have not been allowed for permanent use in the City of Chula Vista for over 20 years due to more rapid deterioration than other types of pipes, such as plastic and reinforced concrete pipes. In 2005 the City ranked the known CMP segments into 5 categories and produced a preliminary replacement cost as shown in the table below:

CMP Storm Drain Replacement

Category (as ranked in 2005)	Feet	Total Cost
1. Immediate Attention	2,342	\$ 3,668,000
2. Action recommended in One Year	24,293	\$14,373,000
3. Action recommended in Three Years	13,207	\$ 6,392,000
4. Action recommended in Five Years	4,269	\$ 982,000
5. Re-inspect in Five Years	22,984	\$ 2,668,000

Due to the lack of dedicated funding, the City continues to be reactive in addressing CMP repairs. Based on one-time funding from the issuance of Certificates of Participation (COP's) for western Chula Vista the CMP identified as Priority 1 has been rehabilitated. However, 2, 3, 4, and 5 are being addressed on an emergency basis, either after failure has occurred or when failure is imminent. As CMP continues to age it is becoming increasingly difficult to fund CMP replacement and rehabilitation work due to the increased cost of repair and unanticipated adjacent property damage. A total of \$1.2 million in *TransNet* monies was previously appropriated in fiscal year 2009-10, which has funded approximately \$0.8 million in emergency drainage projects. The remaining funds of \$0.4 will address minor emergency storm drain failures until those funds are depleted. An

additional \$150,000 in *TransNet* monies was adopted in the fiscal year 2011-12 program for emergency drainage projects. Failing CMP poses a high-risk liability to the City. On average, CMP repairs have ranged in cost from \$400,000 to \$2.7 million.

Next Steps:

- Funding strategies, including the option to pursue additional financing to address storm drain critical needs, will be included in the City's Long Term Financial Plan. Additionally, a proposal to fund an update to the 2005 CMP study from the General Fund will be brought forward for the City Council for consideration in the upcoming FY2012-13 operating budget. CMP rehabilitation strategies vary based on the condition of the pipe. Early detection and repair strategies are lower in cost than emergency repairs. An allocation of \$150,000 is necessary to further understand the degradation of the pipe and guide the decision process.
- The City will review the option of seeking additional Community Development Block Grant (CDBG) loans to address critical needs as done in FY2007-08. Previous loans funded failing CMP in western Chula Vista.

Yellow Parks Management System (PMS)

The City owns and operates 54 Parks covering more than 500 acres of land including amenities such as sports fields, lighting, play equipment, basketball and tennis courts, skate features, restrooms, parking lots landscaping, picnic areas and shelters. The preservation and rehabilitation funding for these assets predominantly is from the General Fund. Over the years, the City has also successfully competed for State Grants used for park improvements and received philanthropic donations. Unfortunately, all of these funding sources have been stressed with the economy and the actual maintenance investment has decreased in each of the last four budget cycles. As a result, the condition of the parks and amenities, throughout the system, is suffering visible deterioration.

A study was presented to the City Council in 2000, which recommended appropriate staffing levels for adequately maintaining the parks system. Current staffing levels are down by 16 positions from the recommended levels. Additionally, critical needs are estimated to costs \$430,000 and include repairs to steps that join Loma Verde Recreation Center to Rienstra fields, sidewalk repairs at Rohr and Tiffany Parks, jogging trail, restroom and a pump replacement at Rohr Park.

Next Steps:

- Funding options will be reviewed as part of the City's Long Term Financial Plan as well as the FY 2012-13 budget process.



The City owns over one million square feet of public buildings including: libraries, recreation centers, fire stations, police station, and the Civic Center Complex. The upkeep of these facilities has historically been reactive with little or no preventive maintenance funding. The deferral of maintenance is becoming more visible to staff and the general public even in our newer buildings. Peeling paint and wall paper, broken or missing tiles, stained or worn flooring, are just the visible indicators of the deterioration that is occurring across our entire facility inventory. Aging plumbing, HVAC systems, and roofing are less visible, but essential in keeping these buildings operational. The goal is to better manage these assets with dedicated funding such as a sinking fund for replacement of components or entire facilities when they reach the end of their useful life.

Fire Stations 1 and 5 are in need of replacement. Built in 1954, Fire Station 5 was part of the Montgomery Fire District in the area, which was annexed by the City in 1985. This station is 57 years old and in an advanced state of deterioration. This fire station is far past its useful life, needing constant repair due to structural damage that has been brought on by the lack of funds to preserve and extend the life of the asset. Fire Station 5 is currently in need of a new roof and other major repairs. Fire Station 1 was built in 1948 and is 64 years old. This station also has structural damage and is in need of a new roof.

Rohr Manor, a former residence converted to a community facility, was closed this past year due to its advanced state of deterioration. The structural integrity of the Manor has been compromised due to water and termite damage and an estimated \$1 million would be needed to renovate the facility and bring it into compliance with the current building codes for public use.

The Norman Park Center, the Civic Center Library, the Loma Verde Recreation Center and the Woman's Club are among our oldest facilities. These assets have and continue to be heavily used by the community. Without substantial restoration investment over the next few years, these venues will reach a state where closure is necessary.

Next Steps:

- Facility funding needs will be addressed in the City's Long Term Financial Plan. In regards to Rohr Manor, Fire Station 1 and 5 staff will continue to pursue grant funding to renovate the facility. In the interim Rohr Manor will remain closed to the public.

The Open Space Districts and Community Facility Districts (CFD's) were established with new subdivisions beginning in the 1980s. These funding mechanisms were established to ensure sustainable improvements in the natural and landscaped areas in and around the new developments. These fees were structured to allow incremental adjustment with inflation and have generally kept pace with the maintenance needs of the districts. However, Wild Land Fire prevention practices have evolved to higher standards. Specifically, vegetation management has become a safety concern. Many of the districts do not have enough funding to sustain the

vegetation reductions needed to meet the new standards. City staff is forming a campaign to raise awareness of these safety concerns and to process a ballot in each of the affected districts seeking approval for fee increases to cover these unanticipated expenses. If the ballot fails, maintenance tasks in each area will be reprioritized to ensure that vegetation management is performed. This reprioritization will result in many open space management tasks being deferred and overall quality in the districts will suffer.

Next Steps:

- Open Space district funding options for brush management within the open space districts will be presented to homeowners as part of a public outreach campaign on Wild Land Fire prevention. If the homeowners communicate their willingness to fund brush management in adjacent canyons, staff will work with the homeowners to pursue an increase in the open space assessments.

Yellow

Miscellaneous Management System (MMS)

Several years ago the City Council directed staff to evaluate City owned real estate assets in an effort to maximize their value by means of increased utilization or consolidation, revenue generation, or disposal through sale. Since then, many City facilities have been leased and private public partnerships have been established increasing revenues and providing services. For example, the Public Works Maintenance Facility on F Street was leased generating revenues for services such as maintenance of City owned street medians which could no longer be maintained by City crews or contractual services due to the lack of General Funds. Currently, four tenants are generating approximately \$115,000 in revenue annually. The private rental of the Lauderbach Community Center for Quinceañeras on weekends is another example of a public-private partnership that has generated revenues which help maintain the facility and keep it open to the public.

Next Steps:

- The Long-term Financial Plan will include recommendations of the future utilization of City assets and/or sale of assets.

Yellow

Compensation Plan

In 1989, the City Council adopted the City's Compensation Policy. In 1999, the City hired John Shannon Associates to conduct a citywide classification/compensation study for all non-safety positions. One of the first steps in the study was the development of a policy confirming the City's compensation policy and selection of an appropriate labor market.

The updated compensation policy formalized Council's philosophy and approach to compensation, which is to establish and maintain a compensation structure based on market place norms, internal

alignment and equity among various groups of employees. Structures and ranges were reviewed and updated based on an evaluation of the City's ability to pay, market place survey data, internal relationships, and equity among the various groups of employees. The policy reflects discussions with the City Council, Executive Management staff and the labor representatives to the Classification Study Committee. It was designed to support achievement of the City Council's strategic objectives for the community, encourage harmonious labor relations, and meet the needs of a majority of the workforce.

The Employer-Employee Relations Policy provides for a compensation program that was to be implemented in accordance with the following guidelines:

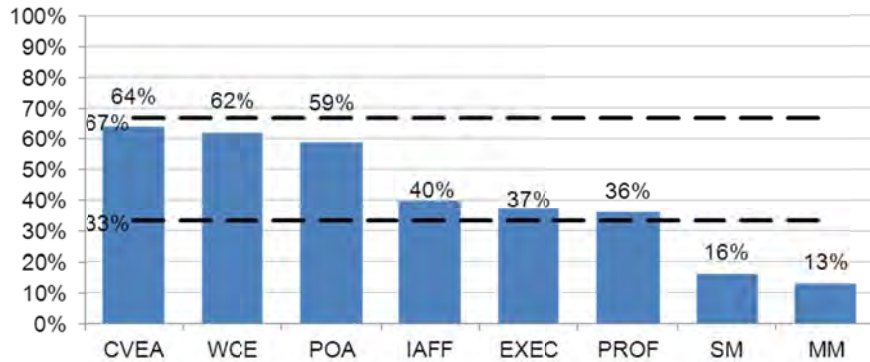
- The City's compensation philosophy
- Labor market selection
- Preferred competitive position in the labor market
- Relative importance of labor market survey data and internal relationships in establishing salary ranges
- Appropriate mix of base salary, total cash and benefits
- The City's commitment to the integrity of the collective bargaining process and the sharing of compensation survey information

One of the program's guidelines is that it is to be fiscally prudent and that it will not jeopardize the financial condition of the City. The City's practice has been to compensate employees in accordance with the City's financial condition. In determining the City's financial condition, the City considers competing service priorities, reserves and revenue growth. As previously discussed, due to the significant downturn in the economy, the housing crisis, closure of the South Bay Power Plant, limitations on the Utility Users Tax revenue, and State takeaways, the City has implemented salary reductions, pension cost sharing with employees, eliminated scheduled raises, and reduced citywide staffing.

Ideally, compensation should be looked at city-wide on a five to ten year basis. Due to the fiscal crisis and the need to negotiate modifications to existing employee contracts, the Human Resources Department has conducted annual compensation studies for all bargaining groups over the past five years. Based on the most recent comparative data available, all bargaining groups (represented and non-represented) are below the top third in the local labor market as noted in the chart below.

**Percentile Rank of Chula Vista Salaries,
by Bargaining Unit**

*Adjusted for Employee PERS Contribution



Note: Salaries adjusted to reflect employees paying their share of pension cost as agreed to during recent labor negotiations. Police and CVEA are phasing in paying their full share of pension cost by July 2012. The data above reflects the pension pick up as of July 2011. Data presented above does not include benefit – only salaries.

Prior MOU commitments and other factors have adversely affected the internal alignment and equity among the various employee groups. These discrepancies will need to be considered as the City's financial position improves. The following table reflects the cost of living adjustments that have occurred since January 2011 as well as the changes in pension contributions.

**Summary of Cost of Living Adjustment (COLA) and Pension
Contributions by Bargaining Group**

Bargaining Unit	MOU Agreement	FISCAL YEAR				
		FY 10-11	FY 11-12		FY 12-13 ¹	
		11-Jan	11-Jul	12-Jan	12-Jul	13-Jan
Police Officers Association (POA) ²	COLA Increase	1.00%	1.00%	1.50%	1.50%	1.00%
	Pension Contribution	3.00%	4.50%	6.75%	9.00%	9.00%
International Assoc. of Firefighters (IAFF)	COLA Increase	0.00%	0.00%	0.00%	2.00%	2.50%
	Pension Contribution	9.00%	9.00%	9.00%	9.00%	9.00%
Chula Vista Employees Assoc. (CVEA)	COLA Increase	0.00%	0.00%	0.00%	--	--
	Pension Contribution	2.00%	4.00%	6.00%	8.00% ³	8.00%

Bargaining Unit	MOU Agreement	FISCAL YEAR				
		FY 10-11	FY 11-12		FY 12-13 ¹	
		11-Jan	11-Jul	12-Jan	12-Jul	13-Jan
Western Council of Engineers (WCE)	COLA Increase	0.00%	0.00%	0.00%	--	--
	Pension Contribution	4.00%	8.00%	8.00%	8.00%	8.00%
Executives (Exec)	COLA Increase	0.00%	0.00%	0.00%	--	--
	Pension Contribution	8.00%	8.00%	8.00%	8.00%	8.00%
Senior Managers (SM)	COLA Increase	0.00%	0.00%	0.00%	--	--
	Pension Contribution	8.00%	8.00%	8.00%	8.00%	8.00%
Mid Managers/Professional (MM/PROF)	COLA Increase	0.00%	0.00%	0.00%	--	--
	Pension Contribution	8.00%	8.00%	8.00%	8.00%	8.00%
Confidential (CONF)	COLA Increase	0.00%	0.00%	0.00%	--	--
	Pension Contribution	8.00%	8.00%	8.00%	8.00%	8.00%

Notes:

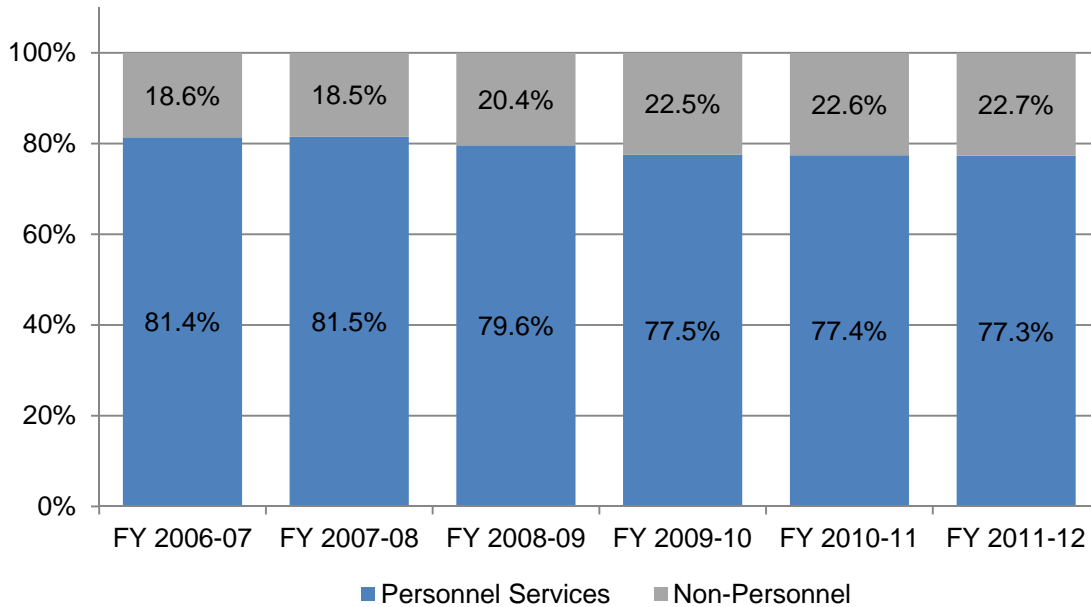
1. The current contracts with CVEA, CVMM/PROFA, and WCE expire on 6/30/2012. The contracts with IAFF and POA expire on 6/30/2013.
2. As part of the most recent side letter, POA is scheduled to receive longevity pay beginning July 1, 2012. Employees shall receive longevity pay in the form of a 3% increase in their base pay when they have served fifteen or more complete years of full time service.
3. CVEA 8.00% pension contribution effective 6/30/12.
4. The City Council also began contributing 8% towards their pension costs in January 2011. Per the City Charter, Council compensation is based on a percent of the salary of a Judge of the Superior Court of the State of California.

Next Steps:

- Human Resources will continue to conduct salary surveys to track the ranking of Chula Vista salary and benefits in comparison to other agencies. Any formal recommendations will be brought forward to the City Council as part of the labor negotiation process.

Approximately 77 percent of the City's General Fund budget is spent on personnel cost (salary, health benefits, pension benefits, workers compensation, differential pay, overtime, etc.). This is in line with other agencies offering similar services. In other words, the City's largest investment is in people who provide services directly to the public such as police officers, fire fighters, librarians, recreation staff, public works crews and support staff.

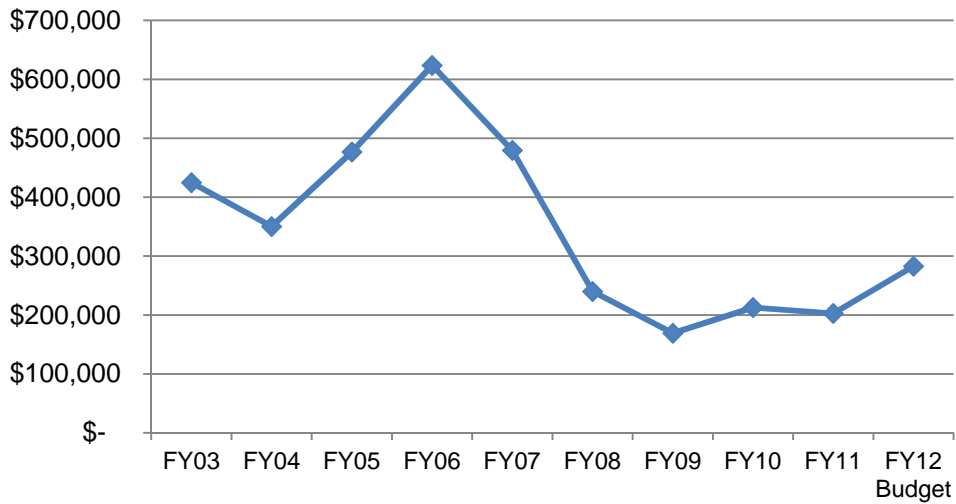
Personnel and Non-Personnel Services Costs
Percent of Council Adopted Budget



The quality and efficiency in providing public service is improved when organizations invest in training their employees. The taxpayer has high demands for efficiency, effectiveness and sustainability that can only be achieved by investing in the employees in order to keep up to date on technical and professional practices. Changes in government legislation and rapidly changing new technology drive home the need to have employees stay proficient in their profession. Some positions, such as engineers, planners, police, attorneys, accountants, have specific training requirements in order to maintain a valid certification or license to perform their duties. Due to the recent budget cuts, funding to train employees to improve their skills or keep them informed of upcoming changes in their respective profession has dropped significantly as reflected in the following chart below.

Due to the recent reductions in the training budget, the Human Resources Department has moved toward offering more on-line training programs, in-house OSHA training and performance management training, as well as other programs. Training programs to maintain licenses for attorneys, accountants, engineers, police and other technical fields are not provided by Human Resource due to the specialization.

Training Expenditures
Fiscal Year 2003 to Fiscal Year 2012



Notes:

1. The chart reflects the actual expenditures in the following objects: Training, POST Training, and Academy Training. It does not include any citywide training included under contractual or professional services.
2. The City has maintained the necessary budget to meet mandated training for specific classifications.

Next Steps:

- With the goal of providing the highest quality and most efficient level of services to the public, the City should adequately fund training programs to ensure that employees keep up to date with changes in technical and professional practices. Additional funding will be considered as part of the annual budget process.

Yellow Operational Reviews

As part of the overall recovery plan, City departments have begun to assess the impacts of the budgetary reductions made over the last five years, which in turn resulted in a significant number of positions being eliminated throughout the City. These reviews include short term Peer Reviews to assess current operational needs, as well as longer term management studies to ensure that departments are properly staffed, implementing best practices in their respective fields, and operating at peak efficiency.

To date, three departments, Fire, Human Resources/Information Technology Services, and Public Works Fleet, have completed some form of peer review. These reviews looked at the current operational conditions and recommendations were made regarding many aspects of the operation that were substandard in terms of best practices in the industry. These recommendations are being reviewed and implemented as budget conditions permit. The other departments in the City are currently working with their peers in their respective industry to conduct reviews.

The City has also begun to search for consultants to conduct much more in-depth management studies throughout the City. These management reviews will assist in determining appropriate staffing levels, current alignment of department functions with the overall goals and objectives of the City, and look at innovative ways to provide service to the community, at a lower cost and increased efficiency. This will be done in conjunction with the City's Continuous Improvement Program. Performance metrics that are tied to operational goals, as well as the City overall goals (established by the City Council), will be further refined in order to provide direction and the ability to track progress for each department in relation to these goals.

The first department which will undergo an in-depth management study will be the Police Department. This study will be conducted in two parts. First, a patrol staffing and deployment study will be conducted in order to assess the appropriate staffing levels in the Patrol Division, with a focus on workload based modeling, adherence to Growth Management Oversight Commission (GMOC) response time thresholds, community policing objectives and innovative staffing methods which utilize non-sworn personnel to handle a portion of the sworn officer workload. The goal is to potentially lower the cost to provide police service, and redirect sworn officers to higher priority calls in the field, thus maintaining or reducing response times.

The second half of the study will look at the Police Department's overall organizational structure, with a focus on implementing best practice concepts in criminal justice administration. The study will examine the overall organizational structure, staffing, alignment of resources, and span of control within the various business units. Attention will also be given to the support functions and utilization of non-sworn personnel and how the use of non-sworn personnel (and volunteers) in traditional sworn assignments can assist the Police Department in achieving their goals.

Next Steps:

- A Request for Proposal has been prepared and is in the process of being distributed in order to select a consultant who will conduct a staffing and organizational review of the Police Department.

Yellow Increasing Operational Efficiency

Due to the City's financial challenges, the City has implemented a number of budget reduction measures that resulted in significant reductions in staffing levels. Given these reductions, the City has had to reevaluate service delivery processes in order to continue providing core services to the public. The City is entering into a "New Normal" period where it cannot assume that the positions frozen or eliminated will be reinstated in future budget cycles. The City has been focusing on increasing operational efficiency in order to continue to provide the best quality services possible with the resources available. Specifically, the City has implemented a Continuous Improvement Program to increase efficiency and is pursuing Public/Public partnerships and Public/Private partnerships, and the increased use of volunteers to meet service delivery goals. More information on these programs will be discussed later in this section but to put these changes in context following is a summary of staffing changes since fiscal year 2007.

The following table reflects the changes in the number of authorized staffing by department and by fund when comparing the fiscal year 2007 budget, which reflects the peak in City staffing, to fiscal year 2012.

Summary of Permanent Staffing Changes by Department and Fund

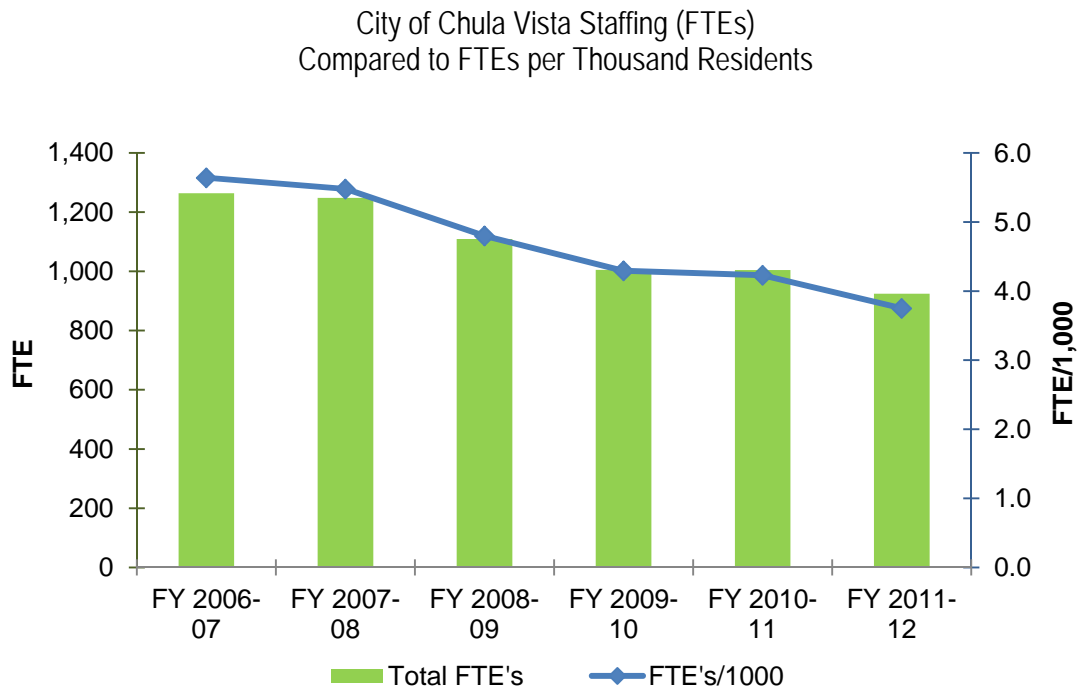
Department/Fund	FY07 Adopted Budget	FY 12 Adopted Budget	Difference	% Change
Nature Center	9.25	-	(9.25)	-100.0%
Community Development	25.00	-	(25.00)	-100.0%
Engineering	51.00	-	(51.00)	-100.0%
Animal Care Facility/General Services	104.75	17.75	(87.00)	-83.1%
Dev Services (GF)	90.50	21.50	(69.00)	-76.2%
Library	70.75	21.00	(49.75)	-70.3%
Administration	21.00	9.00	(12.00)	-57.1%
Recreation	34.00	17.00	(17.00)	-50.0%
City Clerk	8.50	5.00	(3.50)	-41.2%
Human Resources	25.50	15.00	(10.50)	-41.2%
Info Tech Services	29.00	18.00	(11.00)	-37.9%
Police	381.50	306.50	(75.00)	-19.7%
Finance	31.00	26.00	(5.00)	-16.1%
City Attorney	14.00	12.00	(2.00)	-14.3%
Public Works	186.50	160.50	(26.00)	-13.9%
Fire	151.00	134.00	(17.00)	-11.3%
City Council	15.00	14.00	(1.00)	-6.7%
Total General Fund	1,248.25	777.25	(471.00)	-37.7%
Other Funds				
Fleet Management	14.00	8.00	(6.00)	-42.9%
Parking Meter	0.50	-	(0.50)	-100.0%
Transit	-	1.00	1.00	
Redevelopment Agency	1.00	4.00	3.00	
Environmental Services	-	4.00	4.00	
ARRA Fund	-	4.50	4.50	
Housing Authority	-	7.00	7.00	
Police Dept Grants (includes CBAG)	-	34.00	34.00	
Dev Services Fund	-	39.00	39.00	
Sewer	-	46.00	46.00	
Total Other Funds	15.50	147.50	132.00	851.6%
Total Staffing Citywide	1,263.75	924.75	(339.00)	-26.8%

Notes:

1. Since FY 2006-07, a number of positions were transferred from the General Fund to their respective funding source. For example, Development Services staffing previously included in the Planning and Building Department is now included in the Development Services Fund.

2. CBAG staffing was included in the General Fund (Police Department) in FY 2006-07 but was subsequently transferred to the Police Grants Fund thus the Changes to Date column reflects the transfer of CBAG to Other Funds. This change overstates the reductions in the Police Department – excluding CBAG, the reductions in the Police Department/Police Grants Fund totaled 13.4 percent.
3. The reductions in the Fire department include the elimination of 11.0 Fire dispatch positions; Fire dispatch services are now provided on a contractual basis by the City of San Diego.
4. The table above reflects permanent positions only; in addition hourly staffing has been reduced by over 80 percent when comparing FY 2006-07 to FY 2011-12.
5. Since FY 2006-07, a number of reorganizations have occurred in the General Fund. For example, Budget and Analysis was transferred from the Administration Department to the Finance Department and the General Services, Community Development, and Engineering departments were eliminated through mergers with other departments. Most recently, Conservation and Environmental Services was transferred from Administration to Development Services and Public Works. These transfers overstate the reductions in the Administration department and understate the reductions in other departments.

During this same time period the City has continued to grow. The reductions in staffing combined with the increase in population have resulted in a decrease in the FTE per thousand from 5.6 employees per thousand residents in fiscal year 2006-07 to an estimated 3.8 employees per thousand residents in fiscal year 2011-12. From January 2006 to January 2011, the city has seen an increase of 3,814 housing units and 22,490 residents. The City has also added 41 parkland acres, 64 center line miles of streets and 49 miles of sewer lines during the same period of time.



Continuous Improvement/LEAN

One tool that the City is implementing in order to increase efficiency and manage programs and services with lower staffing levels is the Continuous Improvement program. Operating with lower

staffing levels will ultimately help the City move towards fiscal sustainability and ultimately to fiscal resiliency.

Continuous Improvement is a systematic methodology where the City examines all its programs to identify and eliminate the waste embedded in various processes supporting these programs. Eliminating waste from the system reduces the cost of providing services and reduces the amount of time it takes to complete a process. Both in turn free up valuable resources for staff redeployment to core programs.

Continuous Improvement is a method to make gradual, continuous improvement to the business processes of the City. It is a customer-focused approach, which seeks to improve the customer experience and enhance the value that they receive from the process. It is implementation-oriented. Through the various Continuous Improvement tools, employees are taught to apply improvements in rapid succession, thereby maximizing the effect of the changes and reducing the bureaucracy that is inherent in large organizations. A "bias for action" philosophy gives the employees the opportunity to make changes to processes when they see waste and not wait for lengthy planning, analysis and implementation schedules which most often reduce the effectiveness of the change.

The City has partnered with Goodrich Aerostructures to implement the Continuous Improvement program. Goodrich Aerostructures first implemented their Continuous Improvement program in 1994. It is part of their day to day operations and implementing a continuous Improvement process into their organization has moved them from the brink of bankruptcy to one of the most profitable Aerostructure companies in the world.

Beginning in 2008, Goodrich has generously provided in-depth training to all of the City's senior and executive level managers and continues to provide training for other employees throughout the City. In July 2011, the City appointed a new Continuous Improvement Manager to spearhead the implementation of the Continuous Improvement concepts throughout the City. City leadership, beginning with the City Council, has made the commitment to the citizens of Chula Vista that the employees of the City of Chula Vista take seriously their role in providing high quality services while being fiscally prudent with the citizen's tax dollars.

Although the City is at the beginning stages of the Continuous Improvement program, there have been five major continuous improvement events (Kaizens) conducted which have looked at a variety of processes throughout the City. Each of these Kaizen events looked at eliminating waste within the different processes and City staff has been able to make substantial improvements to the processes they were reviewing. Each of these events had a "customer focus" from the beginning, ensuring that the final product enhanced the value of the process for the customer.

Public/Private and Public/Public Partnerships

The City is also working to develop Public/Private and Public/Public partnerships in order to improve service delivery and/or gain efficiencies. In addition to the implementation of the Continuous Improvement program, the City is also expanding partnerships with other public sector and private sector organizations where both can mutually benefit from working together. For example, the City has been working with the City of National City to provide Human Resources

services over the last couple of years. This allows National City to contract for needed services when there are work flow peaks without hiring additional permanent staffing. For Chula Vista, the additional work can be managed with the existing staff and the new revenue allows the department to lower their net impact on the General Fund.

The establishment of storefront operations for the Library and Police Department at the Otay Ranch Town Center are a good example of a successful Public-Private partnership. Earlier this year, the City Council approved a lease agreement for a Storefront Library that will allow the City to provide library services to residents in east Chula Vista. Otay Ranch Town Center also generously provided free rental of a centrally located shop for the Police Department to provide community outreach, and provide a location for Officers to write reports while out on patrol. The location of these storefront operations is expected to improve the Town Centers foot traffic and create an attractive amenity that benefits the community. At the same time, the City of Chula Vista gains a low-cost, user-friendly, temporary library as well as an extension of the Police Department in eastern Chula Vista. The Library Storefront's size permits the space to be staffed on a single shift basis, 5 days a week, for 36 open hours per week. The Police Departments storefront will be staffed entirely by volunteers from the Senior Volunteer Program. The Police Department storefront opened in July of 2011, and the Library storefront is anticipated to open in spring 2012.

Further, the Police Department storefront is supported entirely by the Chula Vista Police Foundation, which funds the utilities and any equipment/supplies needed for the storefront. The Chula Vista Police Historical Foundation has graciously provided several historical displays for the storefront showcasing the ever changing looks and technology in policing.

The Library Department also developed an MOU with the Friends of the Chula Vista Heritage Museum, a chapter of the Friends of the Library. The Museum Friends pay for museum utilities and staffing, and provide labor for graffiti removal, custodial and basic maintenance. This keeps the Museum open at no City cost.

The City will continue to work toward establishing additional Public-Public and Public-Private partnerships to maximize resources and improve or enhance service delivery.

Volunteer Program

The City is also actively assessing the expansion of the volunteer program throughout the City in order to supplement current staffing. By utilizing volunteers, the City is able to redirect employees to handle high priority functions and to reinstate programs which were eliminated as a result of the budget reductions.

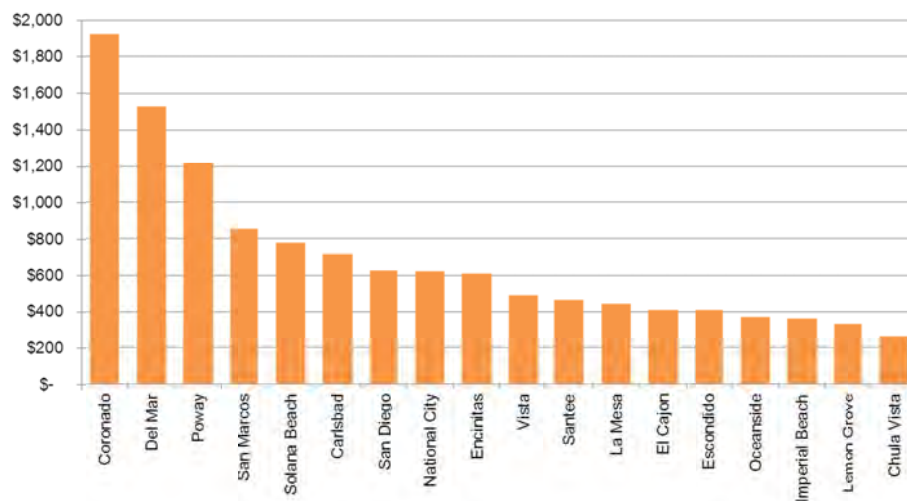
III. Increase/Protect Revenues

Revenues for local municipalities come from a variety of sources such as property taxes, sales taxes, business license taxes, hotel taxes, fees and grants. Major revenue sources such as property taxes and sales taxes are considered discretionary (not restricted) and are allocated by the governing board to fund municipal services such as police, fire, recreation, library services as well as infrastructure maintenance. Fees (e.g., license fees, building fees etc.) are paid for services provided to a direct customer. The City has successfully competed for grant funding from state and federal agencies. While the grants restrict how the funding can be used – this funding has helped the City provide service in key areas such as library, police, fire, animal care, and other departments.

Due to the continued financial instability of the State of California, local governments have endured years of revenue takeaways while at the same time have been burdened with new state mandated programs – typically with no additional funding coming from the State. The combination of these issues along with the unprecedented decline in revenues due to the economic crisis over the past few years has emphasized the need for local governments to search for alternative funds in order to continue providing critical services to the community.

Seeking alternative funding options will be particularly critical to Chula Vista considering the low per capita revenues received from traditional tax sources. When comparing total property tax, tax increment, sales tax and transient occupancy tax (TOT) revenues to other San Diego County municipalities in our region, the City of Chula Vista is the lowest on a per capita basis. This creates significant challenges for the City as it works toward achieving short-term financial stability while operating costs continue to increase and City infrastructure continues to deteriorate as the City matures and maintenance is deferred.

Revenue Comparisons
Per Capita Taxes (Property Tax /TI, Sales Tax, TOT)



Source: Population– State Department of Finance, Property Tax/Tax Increment – County of San Diego Assessed Valuation Reports, 2009-10, Sales Tax and TOT – City CAFRs for fiscal year ending June 30, 2010, City of San Diego CAFR for fiscal year ending June 30, 2009.

On January 20, 2009, the City Council endorsed the City Manager's Fiscal Health Plan which called for a comprehensive review and update of the City's Master Fee Schedule. Originally established in 1982, the Master Fee Schedule is a centralized listing of the fees charged by the City for services, administrative acts and other legally required fees. The schedule serves as a resource for the public to determine the costs of various types of City services without the need for extensive research or a specialized understanding of municipal government.

While the primary mission of government is to satisfy community needs such as police and fire protection, many city services solely benefit specific individuals or businesses. It has been the general policy of the City Council that the public at large should not subsidize activities of these private interests through general tax revenues. The City has therefore established user fees to best ensure that those who use a proprietary service pay for that service in proportion to the benefit received. Regular review and update of the Master Fee Schedule supports effective cost recovery and limits unintended General Fund subsidies for fee-based activities.

The Master Fee Schedule review has been split into three primary phases, two of which have been completed to date. Items considered in each phase of the review are as follows:

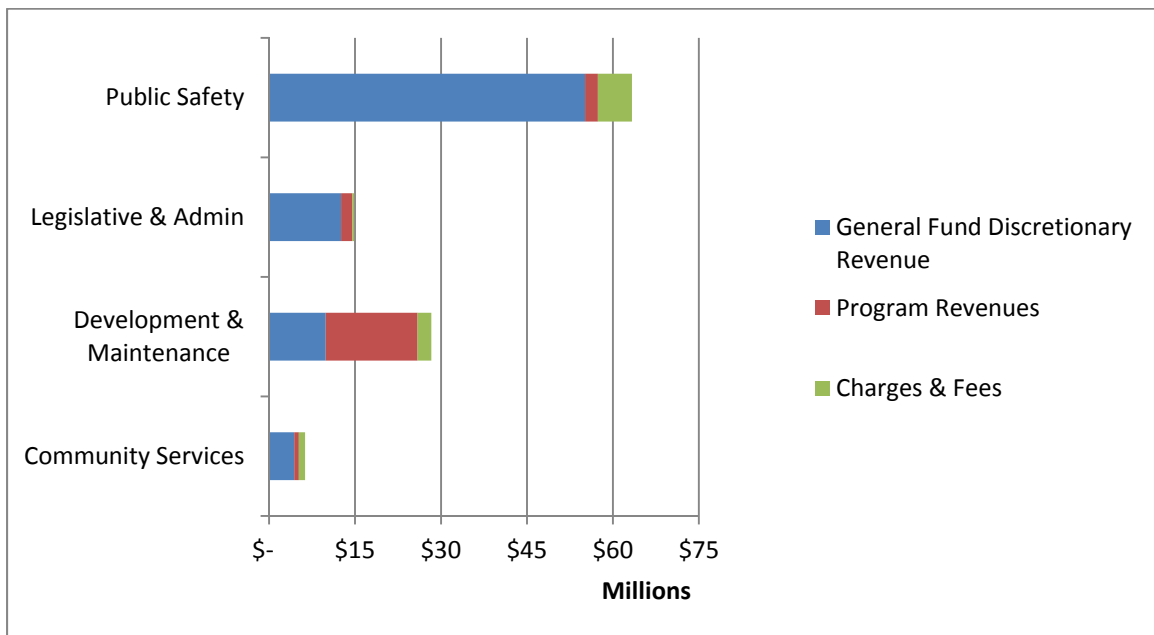
- | | |
|--|--|
| Phase I
(Adopted June 8, 2010) | <ul style="list-style-type: none"> A. Citywide Cost Recovery Policy B. Administrative fees (partial) C. Public Works fees (partial, excluding development related fees) D. Sewer Service Charges (continuation of previously approved rates) E. Master Fee Schedule clean-up & new format |
| Interim Update
(Adopted June 7, 2011) | <ul style="list-style-type: none"> A. Recreation fees (partial) B. Parking fees (State/ County pass-through fees) |
| Phase II
(Adopted July 12, 2011) | <ul style="list-style-type: none"> A. Development & construction related processing fees |
| Phase III
(In Progress) | <ul style="list-style-type: none"> A. Community Service fees (Library & Recreation) B. Public Safety fees (Police, Fire, Code Enforcement, & Animal Care Facility) C. Administrative fees (partial) D. Municipal Code Clean Up (replace fee amounts with reference to Master Fee Schedule) |

In addition to updating fees, the first phase of the Master Fee Schedule review included the adoption of a Citywide Cost Recovery Policy, the City's first formal policy on this issue. A formal Cost Recovery Policy provides the City with an ongoing, sound basis for setting fees given the full cost of providing related services. In doing so, it helps the City to meet desired goals for future cost recovery while supporting the values and mission of the organization.

The Cost Recovery Policy prescribes the periodic review and update of charges and fees based on predetermined, researched, supportable, and transparent criteria. The Policy includes uniform guidelines and cost recovery levels for all City programs, events, activities, goods, and services. The Policy does not bind policy makers to increasing or decreasing fees, but provides a rationale for doing so. Future Councils may decide that the policy should be revised, but in doing so the effect on General Fund resources and programs offered to the public must be recognized. The lower fees are set relative to full cost recovery, the more General Fund dollars are required to maintain the service. Such support must be weighed against the other needs for General Fund resources, including needs which may not have similar cost recovery options. Fees set below full cost recovery effectively shift General Fund discretionary monies, impacting all City operations, not just the department performing the fee based service. All fee setting must be considered in this broader context.

The following chart reflects the net impact of each service area on the General Fund. Downward shifts in program revenue and fee revenue would need to be offset by corresponding expenditure reductions in order to avoid impacting another service area.

Net Cost by Service Area



The service areas listed on the preceding chart reflect the following departments:

- Public Safety – Police and Fire
- Legislative and Administration – City Council, Boards and Commissions, City Clerk, City Attorney, Administration, Information and Technology Services, Human Resources, and Finance
- Development and Maintenance – Development Services (General Fund), Public Works, and Animal Care Facility
- Community Services – Recreation and Library

Yellow

Revenue Enhancements

Over the past several years, due to continued State takeaways of local revenues such as property taxes, sales taxes, motor vehicle license fees and redevelopment funds, local governments are seeking alternative funding mechanisms in order to continue to provide services to their constituents. Due to the passage of Proposition 13, Proposition 218 and most recently Proposition 26, the options are very limited without going to a public vote which can be very costly and there is little indication of public support for revenue enhancing ballot measures.

The City of Chula Vista has over the years pursued several funding mechanisms available to local municipalities such as bonded 1913/1915 Act Assessment Districts, bonded and non-bonded Community Facilities Districts, Open Space Districts, and Property Related Fees in order to provide capital facilities and some maintenance within those districts. These funds are restricted in their use and must be spent within their districts. Without these funding tools additional strain would be placed on the General Fund as demand for construction of capital facilities and maintenance services would be difficult to meet.

In addition to the funding tools implemented to date, there are other opportunities for the City to pursue revenues which could address the various needs in the City. The following tables offer an overview of the various revenues categories.

CITY OF CHULA VISTA
State-Controlled Revenues (Taxes)

Item	Property Tax	Sales & Use Tax	Motor Vehicle License Fees	Gas Tax
Description	Property Tax is an ad valorem (value-based) tax imposed on real property (land and permanently attached improvements) and tangible personal property (movable property).	Sales tax is imposed on retailers for the privilege of selling tangible personal property in California. The use tax is like a sales tax except that it is imposed on the user of a product purchased out of the state and delivered for use in California.	The Motor Vehicle License Fee (MVLFF) is a state imposed tax for the privilege of operating vehicles on public streets. The tax was established in 1948 and until recently allocated to cities and counties.	The state imposes an 18-cent per gallon tax on gasoline for research, planning, construction, improvement and maintenance of public streets, highways, and mass transit. A portion is then distributed to local agencies based on population and another portion is distributed to counties based on the number of registered vehicles.
Tax Rate	Proposition 13 (Article XIII A of the State Constitution) limits the real property tax rate to 1% of a property's assessed value, plus rates imposed to fund indebtedness approved by voters.	The sales tax rate in Chula Vista is 7.75% of which 1% of the tax rate (Bradley Burns Tax) is allocated to the City of Chula Vista.	The State originally assessed a 2% of value on car registrants on behalf of local governments. In May 2004, in an attempt to assist with the State's fiscal crisis, the State dropped the VLF fee from 2% to 0.65%. The State back-filled this fee reduction with additional property tax revenues for cities and counties. The remaining 0.65% was eliminated on July 2011 by SB 89 resulting in a loss of an estimated \$838,140 to the City of Chula Vista.	\$0.18 per gallon. (\$0.09 gasoline tax rate, \$0.09 Proposition 111 rate). Allocation to local agencies are complex as described under Street & Highway Code Sections 2105-2108.
Benefit determination	No direct relationship between services and facilities used by an individual taxpayer and the tax paid.	No direct relationship between services and facilities used by an individual taxpayer and the tax paid.	No direct relationship between services and facilities used by an individual taxpayer and the tax paid.	No direct relationship between services and facilities used by an individual taxpayer and the tax paid.
Levy Changes	Can increase by 2% per year or CPI which ever is less.	N/A	N/A	N/A
Administration	San Diego County Assessor (assessment of property); County Tax Collector (collections), County Auditor (distribution), State Board of Equalization (assessment procedures and assessment of state roll), State Controller (apportionment procedures)	Funds collected by State of California Board of Equalization and distributed to local agencies. Sales tax audits conducted by City consultant - HDL	Funds collected by the State Department of Motor Vehicles (DMV) and disbursed by the State Controller's Office. Delinquencies are collected by the Franchise Tax Board.	The State Board of Equalization registers fuel suppliers, administers tax returns, audits tax payers, administers appeals and refunds. The State Controller's Office collects and allocates the revenues, and audits the use of the revenues.
Parcels Exempted	Most government owned property, non-profit, educational, religious, hospital, charitable and cemetery properties..	N/A	N/A	N/A
Bonding Options	N/A	N/A	N/A	Local agencies can issued bonds via voter approved measure for authorized purposes.
What can be funded	Discretionary Funds allocate to pay for local services such as police, fire, library and recreation.	Unrestricted revenues which must be received into the city General Fund. Funds are allocated to pay for local services such as police, fire, library and recreation.	MVLF funds were unrestricted and allocated to pay for local services such as police, fire, library and recreation.	Restricted for research, planning, construction, improvement and maintenance of public streets, highways, and mass transit.
Authorizing Legislation	CA Constitution Article XIII and XIII A; Rev. and Tax Code 95, 97	CA Constitution Article XIII 25.5(a)(2); Rev. and Tax Code 7200 eq seq.	CA Constitution Article XI 15; Rev. and Tax Code 10751 and 11005. Passage of Senate Bill 89 in July 2011 eliminated the remaining MVLF to local government agencies.	CA Constitution Article XIX 1; Rev. and Tax Code 7301-8404, 8601-9355; Street & Highway code 2104, 2105, 2106, 2107 & 2107.5.
Fund received FY 2011	\$24.7 million	\$26.7 million	MVLF - \$0.6 million; MVLF In-Lieu \$16.4 million	\$3.7 million

Information obtained from various sources: The California Municipal Revenue Handbook, Building a Healthy Financial Foundation through Revenue Diversification, Coleman Advisory Services, Harrell and Co. Advisors.

CITY OF CHULA VISTA
Locally-Controlled Revenues (Taxes)

Item	Ad Valorem Tax	Non-Value Added Tax (Parcel Tax Measure)
Description	Property Tax is an ad valorem (value-based) tax imposed on real property (land and permanently attached improvements) and tangible personal property (movable property). Revenues from rates imposed for general obligation (GO) bond indebtedness may only be used for acquisition or	Special non ad valorem tax on parcels of property generally based on either a flat per-parcel rate or a variable rate depending on the size, use and/or number of units on the parcel. It is not based on the value of the property.
City Tax Rate	0%	0%
Approval threshold	Must be approved by 2/3 affirmative vote of votes cast in the election.	Must be approved by 2/3 affirmative vote of votes cast in the election.
Benefit determination	No direct relationship between services and facilities used by an individual taxpayer and the tax paid. Levy based on percentage of assessed value.	The taxpayer need not use the service, but can be required to pay based on the mere availability of the services. However, if services are used, the tax must be proportional to the use of city services paid by the taxpayer.
Annual administration	San Diego County Assessor (assessment of property); County Tax Collector (collections), County Auditor (distribution), State Board of Equalization (assessment procedures and assessment of state roll), State Controller (apportionment procedures). Issuer of GO Bonds manages debt.	San Diego County collects parcel taxes and remits to agency.
Parcels Exempted	Most government owned property, non-profit, educational, religious, hospital, charitable and cemetery properties.	Most government owned property, non-profit, educational, religious, hospital, charitable and cemetery properties.
Bonding Options	General Obligation Bonds - secured by an unlimited-tax pledge. The tax is based on the value of a property.	Special Tax Bond - secured by a limited-tax pledge. The levy is based on a formula and not the value of the property. Special taxes may be levied pursuant to the Mello-Roos law or voters can be asked to approve a parcel tax.
What can be funded	GO Bonds typically are issued to finance capital facilities and not for ongoing operational or maintenance costs	Can be levied for general purposes (police, fire, library, recreation services) or restricted to a particular purpose such as infrastructure improvements (streets, CMP, drainage, wastewater etc.), open space protection and neighborhood
Authorizing Legislation	CA Constitution Article XIII and XIII A; Rev. and Tax Code 95, 97	CA Constitution Art XI 5.
History with the City	No outstanding GO Bonds. City had issued GO Golf Course bonds in 1965 which matured in 1996.	None

Information obtained from various sources: The California Municipal Revenue Handbook, Building a Healthy Financial Foundation through Revenue Diversification, Coleman Advisory Services, Harrell and Co. Advisors.

CITY OF CHULA VISTA
Locally-Controlled Revenues (Taxes) - Continued

Item	Transaction and Use Tax (District Sales Tax)	Utility Users Tax	Business License Tax	Transient Occupancy Tax (TOT)	Real Property Transfer Tax	Residential Construction Tax
Description	California has many special taxing jurisdictions (districts), which are funded by a transactions (sales) and use tax rate that is added to the standard statewide rate of 7.25% (effective rate on July 1, 2011). The tax rates for these districts range from 0.10% to 1.00% per district.	The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecom, natural gas services and electricity services. More than 150 cities impose a utility users tax.	A Business License is an annual tax paid each calendar year for the privilege of conducting business within the City. Most cities in California levy a business license tax. Tax rates are determined by each city which collects the tax.	The City of Chula Vista imposes a Transient Occupancy Tax (TOT) upon all hotel, motel, inn etc. stays within the City boundaries.	Real estate transfer tax is a tax imposed by states, counties, or municipalities on the privilege of transferring real property within the jurisdiction.	Residential Construction Tax is applicable to all new residential units, including hotels and motels.
City Tax Rate	SANDAG administers a .50% district tax allocated for transportation projects countywide bringing Chula Vista's sales tax rate to 7.75%. The City does not have a Transaction & Use Tax for City services.	The City of Chula Vista imposes a UUT on the use of telecom at the rate of 5% of gross receipts, \$0.00919 per therm for natural gas services and \$0.00250 per kilowatt on electricity services.	Various rates depending on type of business but generally: Business with 5 or fewer employees pay \$25 per year, business with more than 5 employees pay \$52.50 per year.	10% tax rate of the short term room rent charged by operator.	For any sale exceeding \$100, a tax rate of \$0.275 for each \$500 or fractional part thereof. (Example: Transfer of property valued at \$500,000 would be required to pay \$275 as a transfer tax to the City.	Single-family dwelling:\$450 per unit plus \$25 for each bedroom in excess of one bedroom. Various other categories dependent on type of construction.
Approval threshold	General Purpose Tax (unrestricted) - Majority Vote. Special Purpose Tax (restricted for specific purpose) - 2/3 Vote	General Purpose Tax (unrestricted) - Majority Vote. Special Purpose Tax (restricted for specific purpose) - 2/3 Vote	General Purpose Tax (unrestricted) - Majority Vote. Special Purpose Tax (restricted for specific purpose) - 2/3 Vote	General Purpose Tax (unrestricted) - Majority Vote. Special Purpose Tax (restricted for specific purpose) - 2/3 Vote	General Purpose Tax (unrestricted) - Majority Vote. Special Purpose Tax (restricted for specific purpose) - 2/3 Vote	General Purpose Tax (unrestricted) - Majority Vote. Special Purpose Tax (restricted for specific purpose) - 2/3 Vote
Benefit determination	None	None	None	None	None	None
Annual administration	Funds collected by State of California Board of Equalization and distributed to local agencies. Transnet district tax administered by SANDAG.	Levied by the City and collected by the utility as part of its regular billing procedure and then remitted to the City.	City Administered	City Administered	Collected by the County and remitted to the City.	City Administered
Parcels Exempted	N/A	N/A	N/A	N/A	N/A	N/A
Bonding Options	Lease Revenue Bonds - Secured by the moral obligation of the City to appropriate annual lease payments that secure the bonds. The lease payments are paid out of general fund revenues which includes sales tax, property tax, uut, business license tax etc.	Lease Revenue Bonds - Secured by the moral obligation of the City to appropriate annual lease payments that secure the bonds. The lease payments are paid out of general fund revenues which includes sales tax, property tax, uut, business license tax etc.	Lease Revenue Bonds - Secured by the moral obligation of the City to appropriate annual lease payments that secure the bonds. The lease payments are paid out of general fund revenues which includes sales tax, property tax, uut, business license tax etc.	Lease Revenue Bonds - Secured by the moral obligation of the City to appropriate annual lease payments that secure the bonds. The lease payments are paid out of general fund revenues which includes sales tax, property tax, uut, business license tax etc.	Lease Revenue Bonds - Secured by the moral obligation of the City to appropriate annual lease payments that secure the bonds. The lease payments are paid out of general fund revenues which includes sales tax, property tax, uut, business license tax etc.	Lease Revenue Bonds - Secured by the moral obligation of the City to appropriate annual lease payments that secure the bonds. The lease payments are paid out of general fund revenues which includes sales tax, property tax, uut, business license tax etc.
What can be funded	General Taxes are unrestricted and fund general city services such as fire, police, libraries and recreation programs. Lease revenue bonds are issued to finance capital facilities.	General Taxes are unrestricted and fund general city services such as fire, police, libraries and recreation programs. Lease revenue bonds are issued to finance capital facilities.	General Taxes are unrestricted and fund general city services such as fire, police, libraries and recreation programs. Lease revenue bonds are issued to finance capital facilities.	General Taxes are unrestricted and fund general city services such as fire, police, libraries and recreation programs. Lease revenue bonds are issued to finance capital facilities.	General Taxes are unrestricted and fund general city services such as fire, police, libraries and recreation programs. Lease revenue bonds are issued to finance capital facilities.	Funds City Capital Projects. Lease revenue bonds are issued to finance capital facilities.
Authorizing Legislation	CA Constitution Art. XIII 25.5(a)(6); Rev and Tax Code 7251 et seq.	CA Constitution Article XI (5); CVMC Chapter 3.44	CA Constitution, Article XI 5. CVMC Chapter 5.02	Rev. and Taxation Code 7280 and 7281. CVMC Chapter 3.40	Rev. and Taxation Code 11911 to 11929. CVMC Chapter 3.28	CA Constitution Art. XI 5. CVMC Chapter 3.32
History with the City	Proposition A Failed June 2009	Proposition H Failed November 2010 which would modernize current City ordinance.	Established in 1953	Established in 1966	Established in 1967	Established in 1971

Information obtained from various sources: The California Municipal Revenue Handbook, Building a Healthy Financial Foundation through Revenue Diversification, Coleman Advisory Services, Harrell and Co. Advisors.

Charter Cities, like the City of Chula Vista, have broader assessment powers than a General Law City as well as taxable power as determined by a case by case basis. It is important to note that there are significant hurdles to passing certain funding mechanisms, including the quantification of general benefit for certain financing mechanisms and the cost of adequately communicating to the general public the objectives of the various funding options.

Next Steps:

- Through public workshops, the City will seek public input regarding revenue generating ideas over the next few months.
- Prior to pursuing any further funding options, the City will identify where funding is most needed. As discussed in the infrastructure section of the report, the Public Works Department is in the process of developing an Asset Management System which will provide an inventory and assessment of all City assets. After identifying and prioritizing service levels and infrastructure improvements, the City will develop a financing strategy with the goal of securing permanent financing for these services.

IV. Economic Development

A critical element for the City's long-term fiscal health depends upon continued development and diversification of the City's revenue base. That will occur over time, in these ways:

1. In the near term, the focus will continue to be on capturing sales tax revenues through purchasing within the City by our residents and visitors as well as business to business transactions. In addition, staff is continuing to assist in the retention and expansion of existing businesses.
2. Mid-term programs would involve identifying and recruiting those businesses and industries that by their nature bring high paying jobs and revenues and would thrive in Chula Vista.
3. The City has made tremendous progress in long-term major development projects (such as the Bayfront project, Millenia project and the University and Technology Park) which will significantly contribute toward the City's long-term fiscal resiliency by attracting tourism, students and by providing high paying local jobs. The City, however, will not see significant financial returns for at least seven to ten years from these major developments or projects.

In 2012, the City will propose a new set of economic development policies and practices designed to promote business-to-business and consumer relationships that generate local business prosperity and contribute to economic sustainability. The policies will provide an incentive for business expansion and reward investment by local businesses and consumers whose local purchases create jobs and provide the tax dollars that help fund vital community services.

The 2010 Census established Chula Vista as the 77th most populated U.S. city out of approximately 25,000 cities and townships, the 14th of 475 California cities and the 2nd of 18 in San Diego County. Chula Vista is a diverse community with strong median household income well above the County average, however the City ranked last in total per capita revenue and second to last in sales tax in the County. Chula Vista is below the County average in 26 of 30 key sales tax sectors like groceries, gasoline, prescription drugs and home improvement supplies. If residents and businesses purchased these goods in Chula Vista just at the average County rate, these purchases would generate \$ 1.7 billion dollars in local business transactions and support jobs associated with those transactions. These transactions would generate \$17 million dollars in sales tax revenue that the City could invest in vital community services such as infrastructure, library, recreation and public safety at no additional cost to taxpayers.

The City will build on the Enterprise Zone's 2010 success in generating 992 jobs and up to \$20 million dollars in tax credit vouchers for 100 Chula Vista businesses. The Zone will expand to add hundreds of commercial and industrial buildings to the list of eligible businesses in the City's urban core and add important commercial and limited industrial areas in Eastlake and Otay Ranch. The City will also formally launch its permit expedite program that provides an incentive for businesses that create jobs and provide goods and services in key sectors where the City is below the County per capita sales tax average. This program will require hard work and commitment to make a difference in these challenging economic times.

Yellow

Business to Business

The City of Chula Vista's businesses are a critical component of the local economy. Small Chula Vista businesses make up the majority of our local commercial economy. Businesses with 20 or more employees represent only 200 of approximately 7,000 businesses. Small local businesses make a significant investment in the economic health of our city and the quality of life of our citizens and visitors. The business community has an interest in fostering a strong and vibrant network of local businesses in Chula Vista.

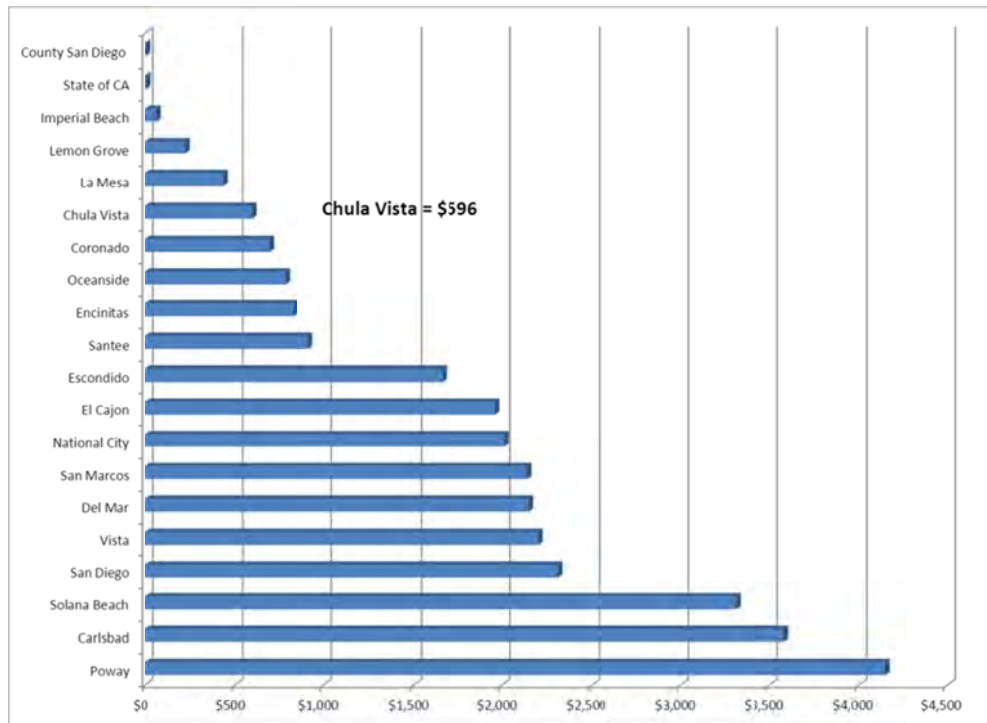
The City's Economic Development Department is in the process of developing a Local Business and Jobs Investment Policy for Council consideration. The purpose of the policy is to take timely local action that complements, but is not dependent on state and federal programs to: 1) facilitate the type of business prosperity that creates quality local jobs, 2) stimulate commercial and industrial investment, and 3) generate local revenues adequate to fund the infrastructure and services that businesses and residents need in order to build and maintain a vibrant community as well as a sustainable local economy.

The proposed 2012 Local Business and Jobs Investment Policy would promote reinvestment in local businesses through City purchasing policies. Staff will reach out to the local business community to increase awareness in the opportunities to compete for more than \$50 million in annual City purchases by inviting vendors to register for participation in the Chula Vista online vendor database. Vendors will be selected to provide goods and services from the database based on their ability to provide quality products and services at competitive prices. Local businesses will be eligible for preference points in the selection process for being a local business,

having 20 employees or fewer, local hiring, vocational training, hiring veterans and/or meeting certain job and environmental objectives included in existing City policies. Once selected, City product and service suppliers would also have an incentive to reinvest in Chula Vista through their own purchasing practices.

Another component of the proposed policy will provide an incentive to local, small businesses, entrepreneurs and key retail sectors within the City. The program will target businesses that are creating jobs and providing retail products that are below the County per capita average in tax generation. Participating businesses would be eligible for incentives including the opportunity to recover the cost of permits and related costs for business expansion from additional tax revenues generated by their business. The City will work with tenant and leasing realtors to promote advantages to locating a business in Chula Vista, share demographic and market opportunities and fill empty storefronts with the variety, quality and quantity of goods and services in the right locations to capture more sales tax revenue. The City will also work with other South County government agencies and cities to model and replicate these policies, and identify opportunities that will enhance Chula Vista's purchasing power and reinvestment in jobs and business prosperity.

Sales Tax Per Capita
(Business & Industrial Category)



Next Steps:

- The City is developing an RFP for an economic development study that will identify businesses and industries that will bring high paying jobs and revenues and thrive in Chula

Vista. In addition, the study will recommend strategies in order to retain and expand existing businesses.

- In 2012 the City will add business contact information to the City website for licensed businesses so that any business or person with Internet access wishing to purchase goods and services from a Chula Vista business will be able to locate them. City staff will strive to provide concierge quality service to local businesses that make a commitment to investing in Chula Vista through local purchasing and hiring practices.
- City staff will also implement a social media program to promote businesses that have high service quality and commit to local purchasing.
- The Economic Development Department is seeking ways to create opportunities that facilitate business-to-business and private-public partnerships through a transition away from local government expenditure to local government investment.
- The Department is also focusing on opportunities to strengthen the local supply chain, and expand local business-to-government transactions by extending the City's local investment purchasing commitment to other local agencies and businesses.

Yellow

Bayfront Development

The Chula Vista Bayfront Project is one of the largest waterfront developments in the State of California. In May 2010, after almost 10 years of planning the Bayfront Master Plan, the San Diego Unified Port District, City Council of the City of Chula Vista, Planning Commission and Redevelopment Corporation unanimously approved the plan. The next step in the regulatory process is to gain Coastal Commission approval, which is expected in 2012.

Chula Vista Bayfront



In 2002, the San Diego Unified Port District (Port) and the City of Chula Vista (City) began work to create a master plan for the approximately 556-acre Bayfront area. The Chula Vista Bayfront Master Plan Area (CVBMP) represents a collaborative effort among the Port, the community, and the City in developing a comprehensive plan that consolidates the respective jurisdictions' planning vision. The CVBMP will promote public access to and engagement with the water while enhancing the quality and protection of key habitat areas, with the ultimate goal of creating a world-class Bayfront.

The project area is divided into three districts referred to as the Sweetwater District, the Harbor District and the Otay District. Development within these three districts is expected to occur in four phases and involves a land exchange between the Port and Pacifica Companies; redevelopment of the Sweetwater, Harbor and Otay Districts with a variety of uses, including parks, open space, ecological buffers, residential, resort conference center, hotel, retail, cultural and recreational space; a reconfigured marina boat basin and boat slips; a new commercial harbor; and realignment of the existing navigation channel. The project also involves redevelopment of the existing roadway and infrastructure system to serve the proposed new uses.

The Sweetwater District consists of approximately 130 acres. In the Sweetwater District, the project proposes the lowest-density development of the three districts and focuses on lower scale, environmentally sensitive, and environmentally themed uses, including a large ecological buffer; a signature park; a bike path; pedestrian trails; other open space areas; and low-intensity uses such as office/retail, hotel, parking for the Chula Vista Nature Center, and roadway and infrastructure improvements.

Bayfront Financial Forecast

Overall, it is projected that the Bayfront Master Plan will require public funding of approximately \$130 million in public infrastructure and an additional \$100 million for the development of a convention center. It is anticipated these costs will be covered through the collection of Port lease revenues, transit occupancy tax and the tourism and marketing district revenue. The annual fiscal impact of the Bayfront Plan will vary depending on development phasing and the financing mechanisms pursued. The development of the Bayfront is anticipated to occur over a 20-30 year timeframe.

As with any major development, revenues are realized over an extended period of time which can create upfront budgetary strain as funding of City operating costs may be triggered in the first phase. This is the case with the Bayfront project. The construction of a fire station on the Bayfront will be required prior to the completion of a Convention Center, hotel or residential building. The cost to develop the fire station has been included in the Bayfront infrastructure estimates but funding for the ongoing cost of staffing the station will be borne by the General Fund potentially impacting existing service levels further unless other resources are identified, costs are partially offset by closure of an existing fire station or through a Memorandum of Understanding with the Port Authority.

Bayfront Fire Station

The construction of a fire station near J Street and Bay Blvd. has been discussed for several years. This station will be the primary unit for the Bayfront/Harbor area. Due to the types of development being proposed, the fire station should be built to accommodate at least two units (engine and truck) to provide support for high-rise structures. Based on the Bayfront Environmental Impact Report, the Bayfront fire station has to be up and operational prior to the first residential unit being sold or the first hotel room being occupied. Therefore, depending on what is developed first, there may be a negative General Fund impact of approximately \$1.5 million per year based on the current three person per engine staffing model. This cost estimate was based on a 2009 fiscal analysis prepared by Economic & Planning Systems, Inc. The actual cost will depend on when the station is constructed and operational. Any new revenues generated by the Bayfront project to cover this increased cost to the General Fund will have to be in addition to the funds needed to pay debt service for this project.

The table below summarizes the potential General Fund impact due to the anticipated fire operating costs beginning in Year 1 of development. This scenario assumes construction of residential units beginning in fiscal year 2015-16 with sale of residential units beginning in fiscal year 2017-18. The construction of the hotel/convention center is not anticipated to occur within the first five years in this scenario. If it does move ahead of the residential phase, the fire operating costs would be mitigated through the generation of TOT revenues. The fiscal impact scenario is presented for discussion purposes only. Updated fiscal impacts will be provided as the project evolves and development appears more imminent.

	Bayfront (Potential Fiscal Impact)				
	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Port Revenues	-	-	-	-	-
City Revenues (TOT)	-	-	-	-	-
Infrastructure Bond Proceeds			41,043,771		
Infrastructure Reimbursements			2,652,464		
Total Est. Revenues	-	-	43,696,235	-	-
City Services (Fire Operations)	(1,487,918)	(1,624,895)	(1,867,735)	(2,155,697)	(2,748,347)
Debt Service			(41,043,771)		
Total Est. Expenditures	(1,487,918)	(1,624,895)	(42,911,506)	(2,155,697)	(2,748,347)
Estimated Net Fiscal Impact to General Fund	<u>\$(1,487,918)</u>	<u>\$(1,624,895)</u>	<u>\$ 784,729</u>	<u>\$(2,155,697)</u>	<u>\$(2,748,347)</u>

Notes:

1. FY 2016 to FY 2021 does not include the construction of a hotel/convention center.
2. Projections assume construction of Residential Units beginning in FY 2015-16.
3. The forecast does not include Port Authority Operating & Maintenance cost.
4. Forecast does not assume any property tax revenues or tax increment revenues due to the uncertainty surrounding future allocations in the project area.

The Millenia Project will serve as a new urban center in the Otay Ranch and eastern Chula Vista community. The area will include regional-serving commercial, financial, urban residential, professional, entertainment and cultural uses. Project amenities include parks, plazas, a town square, paseos and trails as well as civic and cultural facilities. Millenia will also integrate a bus rapid transit system with a pedestrian friendly circulation design for improving access and mitigating traffic. This project is planned to have an intense mixture of uses similar to a traditional downtown and its development is anticipated to be of the highest density in the City of Chula Vista. The project has a build-out time span of 22 years.

Specifically the project consists of the following major land use components:

1. 2 million square feet of office (30 acres)
2. 980,000 square feet of retail
3. Two 250-room hotels
4. Approximately 3,000 medium to high density residential units

The estimated 3,000 residential units will increase the City's population by 7,700 residents. The additional office space and other commercial and civic uses are projected to generate 9,200 jobs at build-out.

Based on the fiscal analysis conducted by Economic Research Associates (ERA), this project is estimated to annually generate \$10.7 million in revenues and \$7.1 million in service costs to the City at build-out. Overall, the Millenia project is projected to generate a positive net fiscal impact to the General Fund of \$3.6 million dollars at build-out under this scenario based on the following assumptions:

- *The land uses are absorbed and built in proportion as are currently planned*
- *City costs for providing services do not exceed a 1% appreciation on an annual basis*

Other impacts not accounted for in the fiscal model are positive impacts to the broader community related to job creation as well as the overall positive economic impacts to the region.

In order for the City to achieve the projected positive General Fund fiscal impact of \$3.6 million annually from the Millenia project at build-out, it will have to monitor the project absorption of the planned land uses in order to avoid operating deficits during the build-out period. The City needs to ensure that revenue generating commercial land and office space is proportionately absorbed throughout the build-out period such that the projected revenues are realized in order to offset operating costs. For example, the fiscal impact analysis for the Millenia project stipulates that 250 of the 500 hotel rooms will be built at the onset of the project. The transient occupancy tax generated by the building of the first hotel is a major factor in mitigating the deficits projected in the initial years of the build-out period.

**Millenia Project Estimated Fiscal Impact
Per ERA Fiscal Model
(In thousands)**

Millenia Buildout Period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 12	Year 17	Year 22
Revenues										
Property Taxes	\$ -	\$ 135.3	\$ 280.0	\$ 376.4	\$ 480.9	\$ 589.6	\$ 702.4	\$ 1,706.1	\$ 2,692.4	\$ 3,222.3
Property Transfer Taxes		68.7	77.8	57.9	66.1	72.4	79.0	155.6	270.6	245.0
VLFF Revenues	98.6	203.8	275.1	352.1	432.1	514.9	719.0	1,568.2	1,968.7	2,347.0
Sales and Use Taxes	9.5	179.6	187.5	195.3	203.2	211.0	545.1	1,731.6	2,098.9	2,343.8
Transient Occupancy Tax	495.0	841.6	990.1	990.1	990.1	990.1	1,485.1	1,980.1	1,980.1	1,980.1
Other Revenues	34.1	71.7	85.9	95.0	104.0	112.9	187.3	392.4	514.5	596.0
Subtotal Revenue	\$ 637.2	\$ 1,500.7	\$ 1,896.4	\$ 2,066.8	\$ 2,276.4	\$ 2,490.9	\$ 3,717.9	\$ 7,534.0	\$ 9,525.2	\$ 10,734.2
Expenditures										
Police Costs	128.9	243.3	323.8	405.9	489.6	574.9	792.8	1,535.7	1,698.0	1,843.4
Fire Costs (Developer Share)	91.9	213.7	272.7	335.8	402.5	472.7	727.5	1,674.1	2,199.7	2,620.3
Other Expenditures	126.9	288.0	395.5	505.3	617.1	731.2	991.1	2,045.5	2,377.3	2,657.9
Subtotal Expenditures	\$ 347.7	\$ 745.0	\$ 992.0	\$ 1,247.0	\$ 1,509.2	\$ 1,778.8	\$ 2,511.4	\$ 5,255.3	\$ 6,275.0	\$ 7,121.6
Net Fiscal Impact (ERA Model)	\$ 289.5	\$ 755.7	\$ 904.4	\$ 819.8	\$ 767.2	\$ 712.1	\$ 1,206.5	\$ 2,278.7	\$ 3,250.2	\$ 3,612.6
Less TOT (Hotel Not Built Yr 1-6)	(495.0)	(841.6)	(990.1)	(990.1)	(990.1)	(990.1)				
Net Fiscal Impact (net of TOT)	\$ (205.5)	\$ (85.9)	\$ (85.7)	\$ (170.3)	\$ (222.9)	\$ (278.0)				

Notes:

- Both Police and Fire costs are allocated to the Millenia project proportionally based on developed units. Fire costs reflect annual operating and maintenance costs of the EUC Fire Station per the ERA Fiscal Model (dated March 31, 2009).
- Net Fiscal Impact (No TOT) represents the net fiscal impact if the Hotel Development is delayed through year 6.

As depicted in the table above, based on the ERA Fiscal Model, without the development of a Hotel in the initial phase of the Millenia project, there would be a negative net cumulative fiscal impact of \$1.0 million in the first six years of the build-out period. The City has taken preemptive steps to mitigate these potential deficits through the negotiation of a development agreement by which the developer of Millenia will provide interim fire station funding capped at \$1.75 million and \$500,000 for other operating deficits caused by the developer's proportionate share of the operating costs.¹³

The discussions regarding fiscal models and major planned developments are included in the report to highlight budgetary challenges which may occur in the General Fund as the provision of new services may not coincide with the realization of supporting revenues for those new services. For example, the fire station included in the Millenia project will serve a larger area which will also generate revenues. If the Millenia project moves ahead of other development, it could result in General Fund budgetary deficits. If the opposite occurs, temporary facilities may be added to support development resulting in a short-term budgetary surplus. It will be important to monitor development in order to avoid budgetary deficits or the commitment of "surplus" funds needed for services supporting the Eastern section of the City as it continues to grow.

¹³ Eastern Urban Center Development Agreement – September 2009

An example of the phasing in of development and potential budgetary impacts to the General Fund is demonstrated in the following table. The estimates include the assumption that the first hotel is developed at the onset of the project and transient occupancy tax (TOT) revenues are realized in the initial years of the build-out period. The associated deficit is mainly attributed to fire service costs for the staffing and operation of the eastern urban center (EUC) fire station that coincide with the initiation of the Millenia project. These costs have been included in order to depict a potential budget timing challenge the City may face as the City will incur service costs in the initial stages of the build-out period without sufficient revenue to offset those costs unless other development projects in the vicinity of the Millenia project coincide or move ahead of the Millenia project.

Millenia Project Potential Budgetary Impacts						
Millenia Buildout Period	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Fiscal Impact (ERA Model)	\$ 289.5	\$ 755.7	\$ 904.4	\$ 819.8	\$ 767.2	\$ 712.1
Fire Costs (net of developer share of cost)	1,410.0	1,325.7	1,305.2	1,281.6	1,255.3	1,226.6
Net Budgetary Impact	\$ (1,120.5)	\$ (570.0)	\$ (400.8)	\$ (461.8)	\$ (488.1)	\$ (514.5)

Note: Net Budgetary Impact reflects the potential budgetary deficit that could result if the Millenia project moves ahead of other development which will be needed to support the operating cost of the fire station.

Yellow University and Regional Technology Park

The City is currently positioned to attract and develop a four-year university in an effort to meet the higher education needs of south bay residents. Once developed, the four-year university is projected to attract 15,000 students and 829 faculty jobs. A four-year university will provide significant economic benefits to the City and the south bay region beyond the direct employment and student economic activity associated with the University. The University Park and Research Center (UPRC) project is expected to complement the four-year University project by providing the land use amenities that co-exist alongside with the development of a major four-year university. Included in the project is 85 acres for a regional technology park (RTP). The RTP is intended to develop synergistically alongside the University site with the following possible uses:

- Research and Development for business
- Incubator Programs for Economic Development
- Business Park Operations featuring industrial production

Overall, the intent of the RTP is to create an environment that fosters collaboration and innovation and promotes the development, transfer, and commercialization of technology.

Other Funds – General Fund Related

The following funds are included in this report because of the impact that they have on the General Fund. The Technology Replacement Fund, Equipment Replacement Fund, Public Liability Fund, and Workers Compensation Fund are internal service funds that are supported largely through charges to the General Fund.

Red

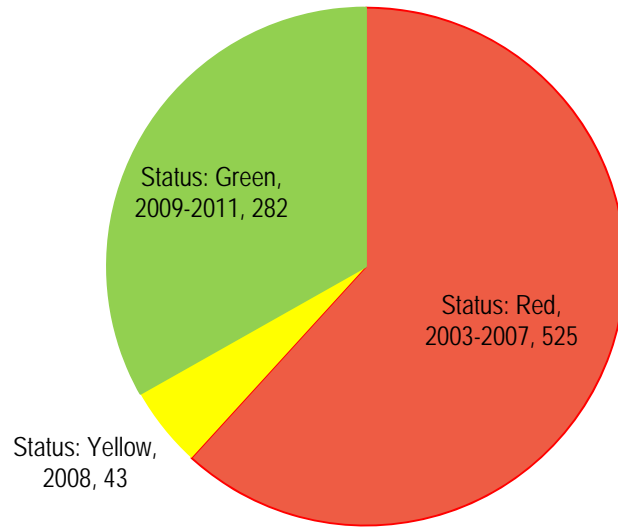
Technology Replacement Fund

On November 14, 2000 the City Council approved the creation of the Technology Replacement Fund for the purpose of accumulating funds each year to replace various computer equipment including microcomputers, printers and major system updates.

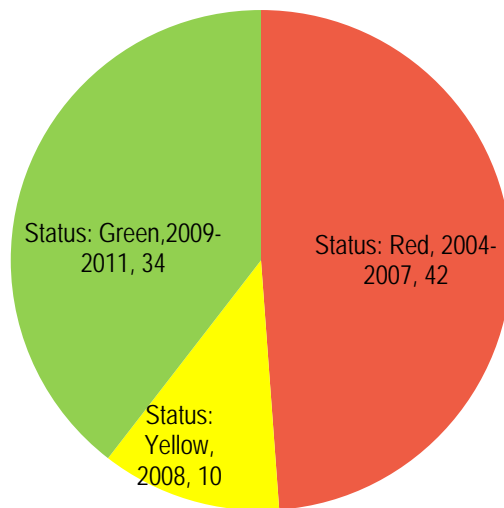
The resolution authorized the establishment of annual user charges to the annual departmental budgets which would be set aside in the Technology Replacement Fund for future replacement of equipment. In order to provide for adequate cash flow requirements in the fund, the resolution approved the reserve level set at one year's expenditures. Due to the severe fiscal crisis of the past few years, beginning in fiscal year 2008, the City was unable to continue funding the Technology Replacement Fund and it has since been depleted to zero. In order to set aside funding for future replacement needs, it is recommended that the Technology Replacement Fund be replenished to meet the anticipated replacement needs and reserve level as established in the City Council approved resolution.

The Information Technology (IT) Department supports a total of 850 computers and 86 servers citywide. It is recommended that computers and servers be replaced every four years to keep up with improved technology and minimize the maintenance cost. Based on a recent inventory conducted by IT staff, a total of 525 or 62 percent of City computers and 42 or 49 percent of servers are more than four years old as depicted in the table below. Due to the budgetary constraints experienced over the past several years, the City has replaced only the most critically needed computers. One of the options being considered by the IT Department is the replacement of computers through a lease buyback program which would allow the City to replace all computers every four years and provide for a more uniform operating platform providing all departments the opportunity to utilize existing resources more efficiently.

City Computers
Includes Status, Year Purchased, and Number of Computers



City Servers
Includes Status, Year Purchased, and Number of Servers



During the past few months, the IT staff have met with each City department to discuss their technology needs which would assist them in becoming more efficient and increase services to the public. The IT Department is in the process of developing a work plan which will identify the technology replacement needs for the next five years. Additional information will be provided as part of the Long-Term Financial Plan. The following list identifies some of the needs identified to date which should be considered when allocating resources in the annual budget process.

- Purchase or develop a CRM/311 system which would provide city departments with quick, reliable access to the information and tools needed to address caller inquiries.
- Upgrade Mobile Data Computers (MDC) utilized in the police patrol vehicles.
- Automate Agenda Process by upgrading SIRE or purchase a new system
- Upgrade Laser Fiche to a digital format.
- Upgrade voicemail system.
- Upgrade or replace current enterprise Resource Planning system to combine redundant databases from various departments with duplicate information into a single platform. This will improve data compatibility, usability and portability so that the City can leverage the data it already has for its Business Intelligence needs.

Next Steps:

- As part of the annual budget process, consider annual allocations to the Technology Replacement Fund to provide for future replacement of servers and enterprise systems such as the financial system, Mobile Data Computers, software upgrades etc.
- Consider moving to a desktop computer lease-buyback program with a four-year rotation in order to maintain technologically up-to-date and uniform computer models that are more efficient to support.
- As part of the Long Term Financial Planning Process, the IT Department will bring forward for Council consideration a recommended Technology Replacement Policy.

Yellow Workers Compensation

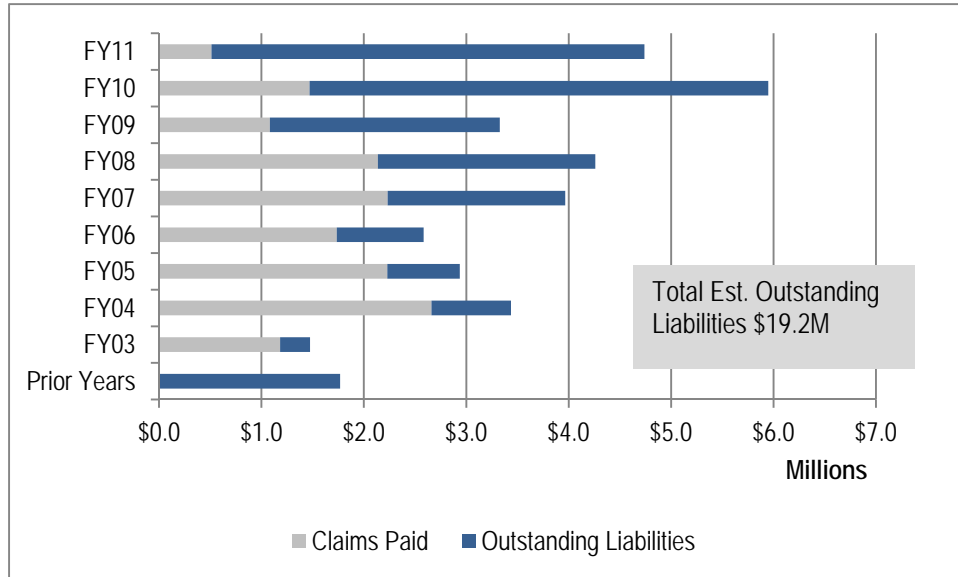
The City of Chula Vista began its self-insured workers' compensation program January 1, 1979. The City is self-insured for the first \$1,000,000 per occurrence for workers compensation liabilities. Additional workers compensation coverage is obtained through participation in the CSAC Excess Insurance Authority's Excess Workers Compensation Program. The program offers per occurrence coverage up to \$5,000,000 through pooled resources and from \$5,000,000 to statutory limits via group purchased excess insurance policies.

The City accounts for all worker compensation expenses in the Workers Compensation Fund, which is funded by the General Fund, Redevelopment Fund, Equipment Replacement Fund, Housing Fund, Sewer Fund and eligible grant funds based on full time equivalent positions.

The City works to maintain sufficient reserves to pay for incurred and forecasted liabilities based on annual valuation reports prepared by an independent actuary. The estimated liabilities are updated annually based on changes in claims experience and updated actuarial information. Based on the

latest estimate, as of June 30, 2011, there is \$19.2 million of workers compensation liability in claims against the City, which are generally paid out over a 15 to 25 year timeframe. The City contracts with Tristar Risk Management for claims administration.

**Workers Compensation Program
Claims Paid and Outstanding Liabilities**

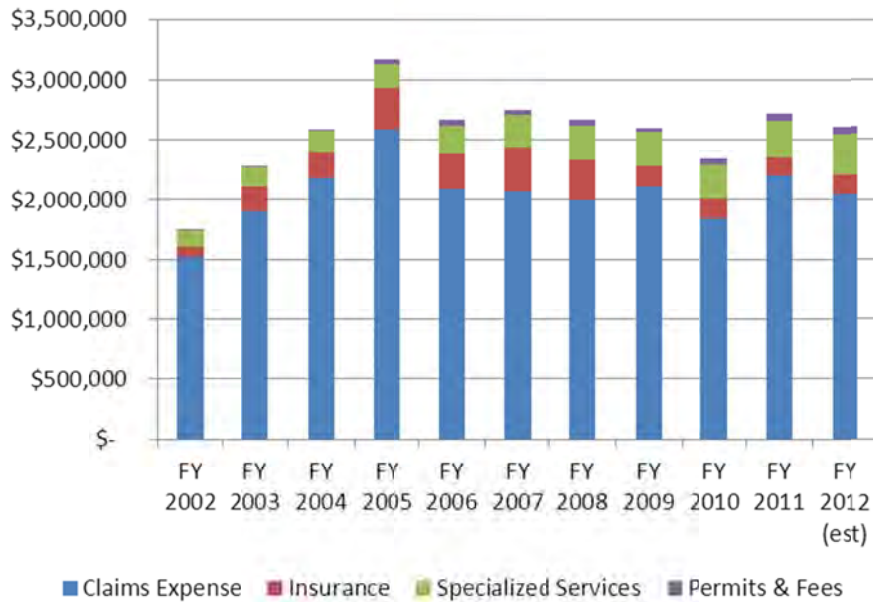


Notes:

1. The "Prior Years" category in the chart above reflects only the outstanding liabilities for prior years to avoid distorting the scale. The claims paid are not reflected on the chart above for this data point. The claims paid for "Prior Years" total \$24.0 million and the outstanding losses total \$1.8 million.

The following chart reflects actual workers compensation expenditures since fiscal year 2003. The fiscal year 2011-12 estimate is based on the average of the last three years. Since 2006, workers compensation expenditures have remained fairly steady averaging approximately \$2.6 million per year.

Workers Compensation Expenditures



Currently, the City budgets approximately \$3.5 million in Workers Compensation expenses in order to fund unanticipated expenses. Based on the increased trend in Workers Compensation claims during the past two years, the costs incurred within the Workers Compensation Fund will increase but the timing and impact of these claims is unknown at this time. Increased allocations to the Workers Compensation Fund will be considered as part of the annual budget process to ensure sufficient funds will be available for the future payment of outstanding claims and provide additional financial stability to the General Fund.

Workers Compensation (WC) Program Reserves

	Fiscal Year <u>2011-12</u>	Fiscal Year <u>2012-13</u>	Fiscal Year <u>2013-14</u>	Fiscal Year <u>2014-15</u>	Fiscal Year <u>2015-16</u>	Fiscal Year <u>2016-17</u>
Beginning WC Reserves	\$ 2,990,161	\$ 3,058,961	\$ 3,078,609	\$ 3,209,433	\$ 3,286,956	\$ 3,367,581
Anticipated Expenses	\$ 2,600,000	\$ 2,652,000	\$ 2,705,040	\$ 2,813,242	\$ 2,925,771	\$ 3,042,802
Anticipated Revenues	\$ 2,668,800	\$ 2,671,648	\$ 2,685,006	\$ 2,698,431	\$ 2,711,923	\$ 2,725,483
Additional Funding to be Considered	\$ -	\$ -	\$ 150,858	\$ 192,334	\$ 294,473	\$ 401,169
Estimated Year End Reserves	<u>\$ 3,058,961</u>	<u>\$ 3,078,609</u>	<u>\$ 3,209,433</u>	<u>\$ 3,286,956</u>	<u>\$ 3,367,581</u>	<u>\$ 3,451,431</u>
Total Est. Outstanding Claims	<u>\$ 19,147,000</u>	<u>\$ 19,912,880</u>	<u>\$ 20,709,395</u>	<u>\$ 21,537,771</u>	<u>\$ 22,399,282</u>	<u>\$ 23,295,253</u>
% Funded	<u>16%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>	<u>15%</u>

Notes:

1. Total Outstanding Liabilities as of June 30, 2012 is based on estimates provided by Bickmore Risk Services.
2. Anticipated Revenues (General Fund share) is assumed in the Five-Year Forecast.
3. The Additional Funding to be Considered represents the amount recommended to be considered as part of the annual budget process in order to maintain a funded status of 15%. The actual funded status will depend on actual expenditures and actual revenue in this fund.
4. Recommended Reserve levels will be reviewed on an annual basis as additional claim information becomes available.

Next Steps:

- Establish a Workers Compensation Reserve Policy setting a formal reserve level which would assist in mitigating future budgetary impacts to the General Fund.
- Consider increasing funding to the Workers Compensation Fund as part of the annual budget allocation process with the goal of maintaining or improving targeted reserve levels.
- Conduct an analysis as part of the Long-Term Financial Plan to identify some alternatives which may assist in reducing workers compensation costs.

Yellow

Public Liability Expense Fund

The City is self-insured for the first \$500,000 per occurrence for its general liability losses including personal injury, property damage, errors and omissions, automobile liability and employment practices liability. For losses between \$500,000 to \$2,000,000 per occurrence, the City pools its liabilities through its membership in the San Diego Pooled Insurance Program Authority (SANDPIPA) which is a joint powers authority composed of 12 San Diego County cities. The City also has additional insurance coverage for losses in excess of \$2,000,000 up to \$45,000,000 on a group basis through SANDPIPA.

The City accounts for its public liability expenses in the Public Liability Fund. Similar to the Workers Compensation Fund, the City contracts for an actuarial study of the self-insured liability program. Based on the most recent actuarial report, the City's estimated outstanding claims are \$5,774,831 as of June 30, 2010.¹⁴ This represents the amount of money, discounted for investment income, required to meet unpaid claims. Unlike workers compensation liabilities which are anticipated to be paid out over a 15 to 25 years, public liability claims have a much shorter timeframe. The outstanding liabilities of \$5.8 million are anticipated to be paid out within the next five years by the City.

In order to adequately plan for payment of claims, the City should maintain dedicated reserves equal to 50 percent of the expected value of claims plus \$500,000 which is the City's self-insured retention. This reserve level recognizes that not all claims will be due and payable at one point in time and that not all claims will be awarded, yet there may be more than one large claim that could require an immediate payment.

Actuarial valuations are calculated every two years by Aon Global. A smoothing methodology using the two most recent actuarial valuations will be used to determine the value of outstanding public liability claims for purposes of calculating the reserve level. The average value of the actuarial valuation for 6/30/08 and 6/30/10 at the expected level is \$2,656,242. Applying a 50 percent reserve level based on the expected value plus the self-insured retention (SIR) of \$500,000 the reserve level should be \$1,828,121. As of June 30, 2011, the reserve level was \$1,322,852. In order to reach the targeted reserve levels for the Public Liability Fund, additional allocations should be considered as part of the annual budget process. Following is a recommended funding forecast with the goal of reaching the targeted reserves by fiscal year 2016-17.

Public Liability Reserves

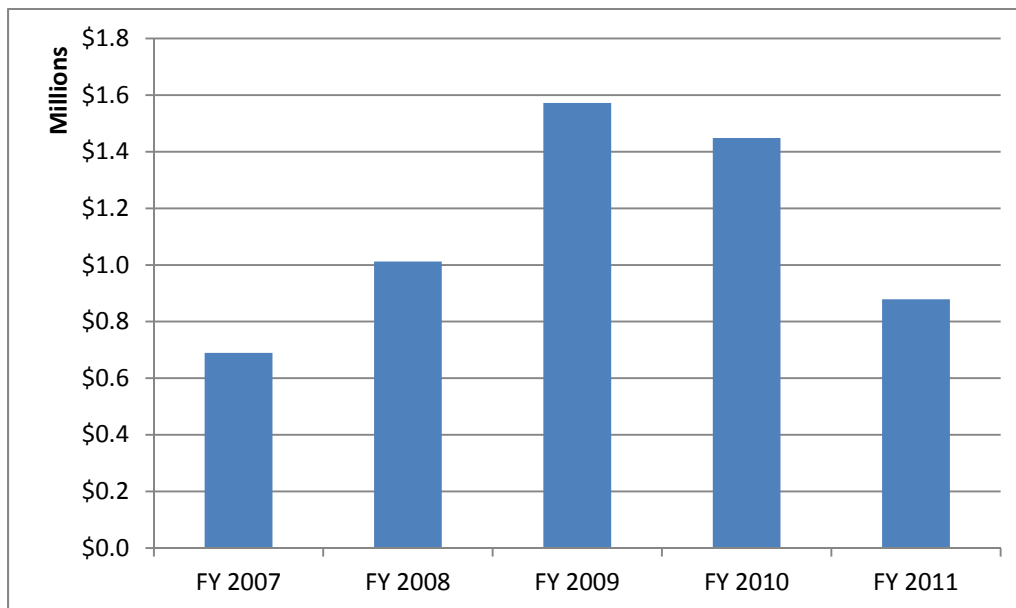
	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Beginning Reserves	\$ 1,322,852	\$ 1,382,291	\$ 1,210,411	\$ 1,205,452	\$ 1,200,395	\$ 1,195,236
Projected Claims Expenses	\$ (1,594,000)	\$ (1,625,880)	\$ (1,658,398)	\$ (1,691,566)	\$ (1,725,397)	\$ (1,759,905)
Projected Funding	\$ 1,653,439	\$ 1,454,000	\$ 1,653,439	\$ 1,686,508	\$ 1,720,238	\$ 1,754,643
Estimated Year End Reserves	\$ 1,382,291	\$ 1,210,411	\$ 1,205,452	\$ 1,200,395	\$ 1,195,236	\$ 1,189,974
Additional Funding to be Considered	\$ -	\$ -	\$ 200,000	\$ 200,000	\$ 200,000	\$ 250,000
Updated Reserve	\$ 1,382,291	\$ 1,210,411	\$ 1,405,452	\$ 1,605,452	\$ 1,805,452	\$ 2,055,452
Recommended Reserve	\$ 1,828,121	\$ 1,864,683	\$ 1,901,977	\$ 1,940,017	\$ 1,978,817	\$ 2,018,393
Reserve Shortfall	\$ (445,830)	\$ (654,272)	\$ (496,525)	\$ (334,564)	\$ (173,365)	\$ 37,059
Total Estimated Outstanding Claims	\$ 5,774,831	\$ 5,890,328	\$ 6,008,134	\$ 6,128,297	\$ 6,250,863	\$ 6,375,880
% Funded based on Est. Year End Reserves	24%	21%	20%	20%	19%	19%

Notes:

1. Claims Expenses include claims settlements paid out and defense attorney costs.
2. Funding for public liability claims are primarily a General Fund obligation.
3. The Additional Funding to be Considered represents the amount recommended to be considered as part of the annual budget process. The actual funded status will depend on actual expenditures and actual revenue in this fund.

¹⁴ City of Chula Vista Aon Global Consulting Actuarial Study October 7, 2010

Public Liability Expenditures (Net of Insurance Reimbursement)



Note:

1. From fiscal year 2007 to 2009, public liability expenditures were budgeted in the Human Resources department. Beginning in fiscal year 2010, public liability expenditures have been budgeted in the Public Liability Fund.

Next Steps:

- Establish a Public Liability Reserve Policy to set a formal reserve level which would assist in mitigating future budgetary impacts to the General Fund.
- Consider increasing funding to the Public Liability Fund as part of the annual budget allocation process with the goal of achieving targeted reserve levels by fiscal year 2017.

Yellow Equipment Replacement Fund

On February 12, 1985, the City Council authorized the establishment of the Equipment Replacement Fund for the purpose of securing funding to replace vehicles in accordance with the Equipment Replacement policy. This fund provided the City the ability to replace vehicles without impacting service levels through the annual General Fund allocation. The replacement cost of vehicles is based on the anticipated economic and useful life for the class of vehicle, the salvage value of the vehicle, and inflation. The following table summarizes the equipment and vehicles assigned to each department and/or fund.

Summary of Equipment by Department and/or Fund

Department/Fund	Equipment and Vehicle Count
1. Equipment Eligible for Replacement from Equipment Replacement Fund	
Animal Care Facility	6
Development Services (Gen Fund)	9
Police	101
Fire	37
Public Works	197
Recreation	8
Library	2
Police Grants Fund (Patrol and Investigations vehicles)	13
Police Asset Seizure (Investigations vehicles)	48
Environmental Services	5
Public Works – Fleet	8
Development Services (DS Fund)	9
Total Equipment Replacement Fund	443
2. Equipment Eligible for Replacement from Sewer Fund	
Wastewater	59
Total Sewer Fund	59
3. Equipment Eligible for Replacement from Transit Fund	
CV Transit	2
Total Transit Fund	2
3. Other Equipment – Reserves, Pool, and Other Vehicles	
Police (includes Mobile Command Post, Armored Vehicle)	4
Fire (includes Reserve Fire Pumpers)	8
Public Works	7
Police Grants Fund (grant funded quad runners)	2
Police - Asset Seizure (includes Senior Volunteer Patrol)	9
Public Works – Fleet (Pool Vehicles)	8
Total Other Equipment	38
Total Equipment Citywide	542

In 2006, a total of \$2.4 million was transferred from the Equipment Replacement Fund to the General Fund to mitigate revenue shortfalls caused by the slowdown in development. This change combined with a subsequent decision to stop funding equipment replacement, resulted in the Equipment Replacement Fund having insufficient funds to replace vehicles as identified in the replacement policy. Over the past four years, vehicles that have been replaced include 36 police vehicles and 6 wastewater vehicles which were funded through Asset Seizure Funds and Sewer Funds respectively.

Based on the current replacement schedule, the General Fund would have to fund equipment replacement costs of approximately \$10.2 million by fiscal year 2016-17. During the next five years, due to the slow recovery and competing funding needs it is recommended that a modified approach to vehicle replacement be implemented. Under this modified approach only critical need vehicles would be replaced – the benefits of this approach is that the City can restart vehicle replacement at a moderate funding level thus limiting the impact to other programs.

Critical need vehicles will be identified by taking into consideration the age or mileage, dependability, safety, mechanical performance, and life-to-date maintenance rating and have exceeded their useful life expectancy. The goal is to avoid the loss of productivity of staff/crews out in the field as they need their vehicles/equipment to perform their duties. The Police patrol sedans are automatically categorized as critical replacement as they accumulate mileage at such an accelerated rate which can lead to major mechanical problems and costly repairs. In addition, the reliability of the vehicle in responding to calls is considered.

In order to avoid ongoing impacts to City services and provide long-term resiliency to the General Fund, allocation of funds need to be considered as part of the annual budget process. The City's Long-Term Financial Plan will consider long-term funding strategies and identify options to bring the Equipment Replacement Fund back to funding levels as envisioned in the Council Policy. In the interim, only the most critically needed equipment will be recommended for replacement as identified in the following table. Due to the aging fleet, it is anticipated that maintenance costs will continue to increase creating additional funding needs during the next few years.

Critical Replacement Needs List
Fiscal Year 2012-13

Department and Description	Program	Projected Mileage June 2012	Replacement Cost	LTD Maint as % of Replacement Cost	FY2011 Maint Cost
Police					
2003 Ford Crown Victoria	Police Patrol	85,230	\$ 25,500	66%	\$ 3,630
2006 Ford Crown Victoria	Police Patrol	94,940	\$ 25,500	67%	\$ 5,099
2000 Ford Crown Victoria	Police Patrol	85,704	\$ 25,500	106%	\$ 1,853
2008 Ford Crown Victoria	Police Patrol	98,783	\$ 25,500	44%	\$ 5,556
2008 Ford Crown Victoria	Police Patrol	93,274	\$ 25,500	60%	\$ 3,971
2008 Ford Crown Victoria	Police Patrol	87,953	\$ 25,500	67%	\$ 2,408
2006 Toyota Sienna	Asset Seizure	144,182	\$ 24,600	82%	\$ 4,650
2005 Ford Crown Victoria	Police Admin	156,476	\$ 25,500	32%	\$ 614
Subtotal Police			\$ 203,100		
Public Works					
2000 Ford F350 Crew Cab Truck	Streets	114,398	\$ 45,000	51%	\$ 3,582
2004 Ford F250	Parks	136,589	\$ 45,000	50%	\$ 5,044
2000 Ford F550	Signs & Striping	10,612 hrs	\$ 62,000	85%	\$ 2,075
1998 GMC Patch Truck	Streets	5,812 hrs	\$ 82,300	92%	\$ 7,370
1993 Peterbilt 10-yd Dump	Streets	135,369	\$ 175,000	64%	\$ 21,227
Subtotal Public Works			\$ 409,300		
Total Equipment Replacement Fund			\$612,400		
Fire					
1999 Pierce Pumper	Fire Suppression	10,276 hrs.	\$ 601,400	43%	\$ 31,909
2004 Chevrolet Suburban	Fire Suppression	91,760	\$ 55,775	53%	\$ 2,723
Subtotal Fire			\$ 657,175		
Total Fire Equipment Replacement Fund			\$657,175		
Total Critical Needs			\$1,269,575		

Notes:

1. Replacement of 2005 Ford Crown Victoria in Police Administration is based on the vehicle's high mileage.
2. LTD reflects Life to Date.
3. Replacement of 1999 Pierce Pumper will transfer this vehicle to reserve duty and replace a 1985 Pumper.

Staff is recommending the establishment of a Fire Equipment Replacement Fund that would be funded through a transfer from the General Fund. In September 2011, Council approved an updated contract with American Medical Response (AMR). As part of this agreement, the General Fund will receive Emergency Medical Response (EMR) support services payment reimbursing for the costs associated with providing Basic Life Support. As a result, General Fund revenues which had funded EMR can be allocated to fund Fire equipment replacement costs. For this reason, Fire equipment replacement is presented separately.

The following table reflects the five year forecast for the Equipment Replacement Fund. This forecast reflects a transfer from the General Fund of \$450,000 on an annual basis. As discussed previously, since 2009 the General Fund has not funded vehicle replacement. Due to the aging fleet, staff is recommending that equipment replacement costs be considered in the development of the City budget beginning in fiscal year 2012-13.

Equipment Replacement Fund
Five-Year Forecast – Critical Needs Only

Description	FY 2012-13	FY2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Beginning Available Reserves (est)	\$ 1,776,401	\$ 1,614,001	\$ 1,373,001	\$ 1,227,101	\$ 447,101
Replacement Fund Resources	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000	\$ 450,000
Total Resources	\$ 2,226,401	\$ 2,064,001	\$ 1,823,001	\$ 1,677,101	\$ 897,101
Replacement Costs - Critical Needs Only	\$ 612,400	\$ 691,000	\$ 595,900	\$ 1,230,000	\$ 852,000
Projected Ending Available Reserves	\$ 1,614,001	\$ 1,373,001	\$ 1,227,101	\$ 447,101	\$ 45,101

Notes:

1. Replacement Cost based on estimates from Public Works - Replacement Schedule adjusted for critical needs only.
2. Replacement Fund Resources represent annual General Fund allocations, which will be considered as part of the annual budget process and not currently assumed in the Five Year Financial Forecast. Forecast excludes Wastewater Vehicles which are funded directly out of the Sewer Fund.

Currently, the largest equipment liability to the General Fund is the replacement of fire apparatus. The Fire Department is recommending changing the replacement schedule to comply with the National Fire Protection Associations (NFPA) Standard 1901. If this recommendation is implemented it would result in fire equipment being replaced in fiscal year 2014 as opposed to 2019 as previously scheduled. This is 5 years earlier than anticipated in the replacement schedule as approved by the City Council in 1985. This change will impact the replacement timeline as follows.

Replacement Schedule – Fire Frontline Vehicles

Vehicle	Current Policy	Updated Policy
Fire Engines	20 years	15 years
Fire Ladder Trucks	25 years	15 years
Reserve Vehicles	No set replacement	10 years (25 years total service)

The change in policy moves forward the replacement of approximately \$2.4 million in fire vehicles into the five year financial forecast window. Without the assumed EMR support services payments, the General Fund would have a significant liability to fund the replacement of these vehicles earlier than previously anticipated. The following table reflects a five year projection for the Fire Equipment Replacement Fund including the funding from the General Fund.

Fire Equipment Replacement Fund
Five-Year Forecast

Description	FY 2012-13	FY2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Beginning Available Reserves (est)	\$ 65,735	\$ 18,560	\$ 52,560	\$ 467,960	\$ 359,660
Replacement Fund Resources	\$ 610,000	\$ 610,000	\$ 610,000	\$ 610,000	\$ 610,000
Total Resources	\$ 675,735	\$ 628,560	\$ 662,560	\$ 1,077,960	\$ 969,660
Replacement Costs:					
Pumper and Ladder Trucks	\$ 601,400	\$ 410,000	\$ -	\$ 660,000	\$ 680,000
Other Fire Vehicles	\$ 55,775	\$ 166,000	\$ 194,600	\$ 58,300	\$ -
Total Replacement Costs	\$ 657,175	\$ 576,000	\$ 194,600	\$ 718,300	\$ 680,000
Projected Ending Available Reserves	\$ 18,560	\$ 52,560	\$ 467,960	\$ 359,660	\$ 289,660

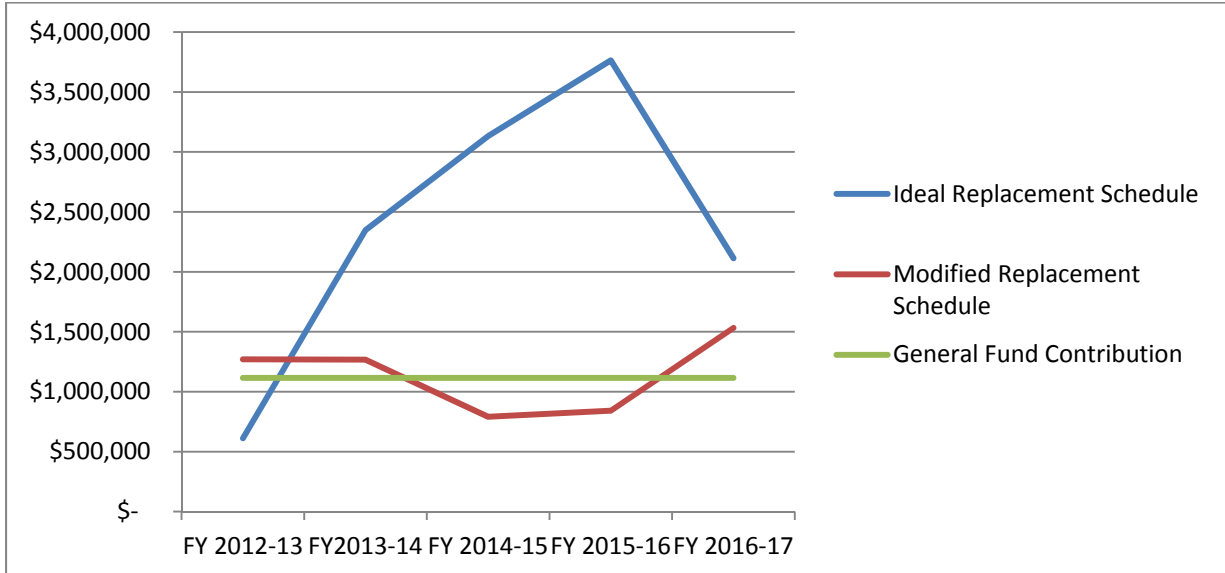
Notes:

1. Replacement Cost based on estimates from Public Works reflecting the potential adoption of the NFPA standards for apparatus replacement and standard replacement schedule for other vehicles based on the City's replacement policy.
2. Replacement Fund Resources represent annual General Fund allocations which are not currently assumed in the Five Year Financial Forecast.
3. The vehicle replacement costs for fiscal years 2018 to 2022 are estimated at \$7.9 million due to the number of Pumper and Ladder trucks that are scheduled to be replaced during this time period. This fund would likely require an increased General Fund contribution of approximately \$4.9 million over this time period in order to implement the proposed replacement schedule. This would result in an increase in the annual General Fund contribution from \$680,400 to \$1,583,000, an increase of approximately \$973,000.

As discussed previously, the Public Works department prepared a replacement schedule based upon the current replacement needs. This schedule brings the City into compliance with the City Council vehicle replacement policy within a shorter time frame but would require an investment of more than \$10.2 million from the General Fund over the next five years. Recognizing the current funding restrictions, the Public Works department also prepared a replacement schedule that focuses only on replacing critical needs vehicles. The following chart helps to demonstrate the impact a pay-as-you go method can have on the General Fund. The chart reflects the following data:

- Ideal Replacement Schedule – reflects the costs of restarting vehicle replacement in fiscal year 2012-13 in order to bring equipment in compliance with the replacement policy.
- Modified Replacement Schedule - reflects the costs for both the Equipment Replacement Fund and the Fire Equipment Replacement Fund for critical needs vehicles. This schedule does not bring the equipment in compliance with the replacement policy during the next five years.
- General Fund contribution – reflects the proposed funding from the General Fund to the Equipment Replacement Fund and the Fire Equipment Replacement Fund based on the modified replacement schedule.

Equipment Replacement Fund – Equipment Replacement Costs and General Fund Contribution



Next Steps:

- Consider funding the Equipment Replacement Fund (Non-Fire) as part of the annual budget process. A recommended minimum level of \$450,000 per year will be necessary in order to replace critically needed vehicles during the next five years. Funding strategies beyond the forecast period will be analyzed as part of the City's Long-Term Financial Plan.
- Update the Equipment Replacement Policy based on current replacement criteria and bring forward for Council consideration as a formal City Council Policy.
- Review leasing options for the replacement of Fire Engines and other City vehicles as part of the Long-Term Financial Plan.

Five-Year Financial Forecast

The goal of the Five-Year Financial Forecast is to assess the City's ability over the next five years to continue current service levels based on projected growth, preserve the City's long-term fiscal health by aligning operating revenues and costs, and rebuild the operating reserves.

The General Fund Five-Year Financial Forecast serves as a tool to identify financial trends, shortfalls, and issues so the City can proactively address them. Subsequent forecasts will be updated once revenue projections are revised and budget balancing alternatives are identified and approved.

It is important to stress that this forecast is not a budget. It does not make expenditure decisions but does assess the need to prioritize the allocation of City resources. The purpose of the forecast is to provide an overview of the City's fiscal health based on various assumptions over the next five years and provide the City Council, management and the citizens of Chula Vista with a "heads up" on the financial outlook beyond the annual budget cycle. The five-year forecast is intended to serve as a planning tool to bring a long-term perspective to the budget process.

The Government Finance Officers Association (GFOA) recognizes the importance of combining the forecasting of revenues and expenditures into a single financial forecast. The GFOA also recommends that a government should have a financial planning process that assesses long-term financial implications of current and proposed policies, programs, and assumptions and that develops appropriate strategies to achieve its goals.

The forecast reflects final figures for fiscal years 2010-11, the adopted budget for fiscal year 2011-12, and forecasted figures for fiscal years 2012-13 through 2016-17.

Forecast Summary/Conclusion

This long-term financial outlook continues to identify challenges to the City's General Fund. Specific recommendations to achieve a balanced budget for fiscal year 2012-13 will be presented as part of the budget workshops. Subsequent forecasts will be updated when the mid-year budget review is completed (Second Quarter Financial Report) and budget balancing alternatives are identified and approved.

General Fund Five-Year Financial Forecast

Fiscal Years 2013 to 2017

Description	FY 2010-11	FY 2011-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17
	Actual	Adopted	Forecast	Forecast	Forecast	Forecast	Forecast
Revenues	\$ 128.7	\$ 121.5	\$ 120.6	\$ 122.3	\$ 124.1	\$ 126.0	\$ 128.4
Economic Contingency Reserves	\$ 3.0	\$ (3.0)	\$ -	\$ -	\$ -	\$ -	\$ -
Expenditures/Fund Balance Adj.	\$ 124.1	\$ 124.6	\$ 123.6	\$ 126.0	\$ 127.2	\$ 129.4	\$ 132.1
Surplus/(Deficit)	\$ 1.7	\$ -	\$ (3.0)	\$ (3.6)	\$ (3.2)	\$ (3.3)	\$ (3.7)

During these transitional times and environment of economic uncertainty, financial planning is always a prudent activity and development of a long-term financial plan is essential to sound fiscal management. The Five-Year Financial Forecast is not able to predict with certainty the City's fiscal future, rather it will serve as a tool to highlight significant issues or problems that must be addressed in order to avoid deficit spending.

It should be noted that this report has focused on the City's ability to provide for operating service programs that are currently in effect using existing sources of revenue. As the City continues to grow in population, additional parks, public facilities and roads will need to be added in order to maintain service levels mandated by the Growth Management Ordinance. Based on the Five-Year Financial Forecast Report, funding for any new programs or other major initiatives will require tradeoffs during the budget process.

Summary of General Fund Revenue & Expenditure Assumptions

In December 2007, the national economy officially entered a recession, now projected to be the worst since the Great Depression of 1929. This significant decline in economic activity severely impacted all economic sectors including government agencies. The City of Chula Vista felt the effects of the recession earlier than most agencies primarily due to the rapid residential growth experienced during the past six years and the effects of the foreclosure crisis, which eventually spread across the Country. Adding to the fiscal strain was the closure of the South Bay Power Plant and the loss of the assumed UUT (Wireless Telecommunications component) revenues in 2010 and 2011.

Current economic reports continue to reflect a soft economy. Therefore, the base forecast assumptions will continue to reflect a conservative outlook. The base forecast assumes that major discretionary revenues will increase at very modest levels throughout the forecast period.

Forecast of Major General Fund Revenues

% Changes from Prior Year

Revenue Category	Actual FY 2010-11	CA Budget FY 2011-12	Forecast 2012-13	Forecast 2013-14	Forecast 2014-15	Forecast 2015-16	Forecast 2016-17
Property Tax	-4.0%	2.1%	0.0%	1.5%	1.5%	2.0%	3.3%
Sales Tax	12.8%	-1.1%	3.0%	3.0%	3.0%	3.0%	3.0%
Franchise Fees	-2.4%	-8.8%	5.4%	2.0%	2.0%	2.0%	2.0%
Utility Users Tax	-45.4%	-34.4%	2.7%	1.0%	1.0%	1.0%	1.0%
Transient Occupancy Tax	1.1%	1.3%	2.0%	2.0%	2.0%	2.0%	2.0%
Motor Vehicle License Fee	-4.3%	1.5%	-3.9%	1.5%	1.5%	2.0%	2.0%

Notes:

1. Property Tax revenues include collection of delinquent taxes and thus do not exactly correlate to change in assessed values.
2. Sales Tax revenues in FY 2010-11 include prior year adjustments. Actual economic trend is closer to 4.3%
3. Franchise Fee revenues no longer reflect collection of revenues from the operation of the South Bay Power Plant.
4. Due to recent State Takeaways, the MVL Fees no longer reflect collection of the fee allocated to Cities on a per capita basis.

To follow are some key assumptions applied in the preparation of the base financial forecast:

Economic & Population Growth

- Inflation is a measure of the increase for the cost of goods and services. Inflation impacts many revenues, such as rents and leases, and most expenditure categories throughout the five-year forecast and is projected to average 2% per year which is a conservative assumption based on recent projections provided by the UCLA Anderson Forecast.
- The regional economies will begin to recover at very moderate levels.
- City population will continue to reflect modest increases.
- Millenia Project (Eastern Urban Center) and Bayfront Development – No additional revenues or operating expenses are assumed related to the Millenia Project or the Bayfront project area. As timing of development becomes more certain the revenues and operating expenses related to additional service demands will be added to the forecast.

Major Revenues

- Sales Tax revenues will increase modestly (3% annually) throughout the forecast period.
- Base assessed value will remain flat through fiscal 2014-15 due to the continued fall out the housing crisis. Beginning in fiscal year 2015-16 and 2016-17 assessed values are assumed to increase by 2% and 3% respectively.
- Recent State takeaways of motor vehicle license fee revenues are reflected in the forecast.
- The Redevelopment Agency continues to fund loan repayments to the General Fund at an average of \$1.5 million per year.
- Franchise Fee revenues no longer assume any funds from the operation of the South Bay Power Plant.
- No UUT wireless telecommunications revenues are assumed.

Expenditures

- Expenditures related to negotiated salary increases are reflected in the forecast based on currently negotiated Memorandums of Understanding. Step increases are included in the fiscal year 2012-13 budget but no additional raises, including step increases, are assumed beyond the current MOU's.
- Flex Plan increases based on 10% health care premium increases per fiscal year based on historical trends.
- CalPERS retirement contribution rates will continue to increase due to recent market losses. Details on the assumed CalPERS contribution rates are included later in this report.

- No salary savings (vacancies) are assumed in the forecast with the goal of developing a conservative budget.
- No additional personnel are assumed in the forecast with the exception a grant funded position approved during fiscal year 2011-12 in the Police Department.

Additional details related to the revenue and expenditure assumptions are discussed in the General Fund Major Revenues and Expenditures Section the report.

Economic and Demographic Overview

UCLA Anderson Forecast - National & California Forecast

In its third quarterly report of 2011, the UCLA Anderson Forecast's outlook for the nation is "far worse" than it was just three months ago. Considering the weak, revised data for the first half of the year, the forecast calls for average Gross Domestic Product growth of just 0.9% on average for the next five quarters and ending in the first quarter of 2012. However, the Forecast economists remain steadfast in their assertion that the United States is not currently in a recession, nor is there a recession in the forecast through 2013. In California, the UCLA Anderson Forecast sees a tale of two states, as Coastal California enjoys a recovery rooted in exports, innovation and knowledge communities, while Inland California continues to suffer from a glut of housing and a contraction in government spending.¹⁵

USD Index of Leading Economic Indicators

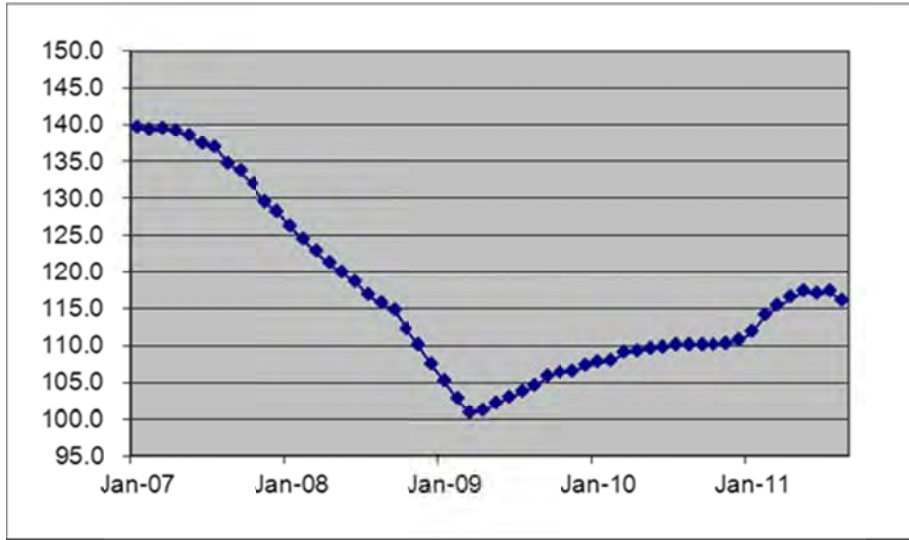
The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County fell 1.0 percent in August. The downward move was led by sharp declines in local stock prices, consumer confidence, and building permits. These overwhelmed moderate increases in help wanted advertising and the outlook for the national economy and a smaller gain in initial claims for unemployment insurance to push the USD Index to its largest decline since March 2009.

With the USD Index now having fallen for two of the last three months, there are serious questions about the near term outlook for the local economy. Economists usually look for three consecutive changes in a leading index in one direction to signal a turning point in an economy. While that threshold has not yet been met, the magnitude of the decrease is troubling. The two measures of sentiment in the Index, local stock prices and consumer confidence, collapsed in August, indicating that both investors and consumers have serious concerns about the economy. As discussed below, the economic and political situations have gotten people in an ugly and pessimistic mood that has not been observed for a long time. Whether that translates into trouble for the economy remains to be seen. For now, the outlook remains positive but projects slow growth in the local economy through the first part of 2012. What happens after that is up in the air, and more data will be needed in the coming months to clarify the situation.¹⁶

¹⁵ UCLA Anderson Economic Forecast Press Release September 20, 2011

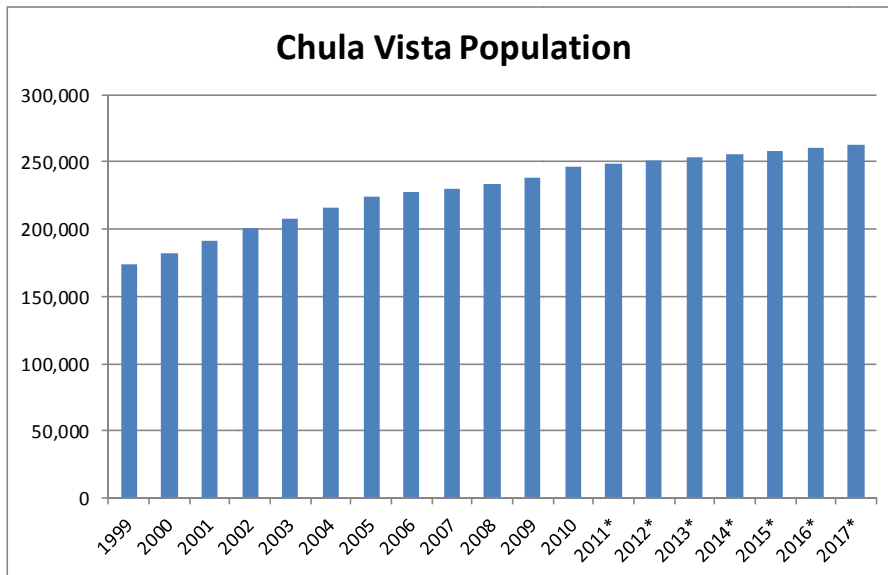
¹⁶ USD Index of Leading Economic Indicators – September 27, 2011

San Diego Index of Leading Economic Indicators



Population and Housing

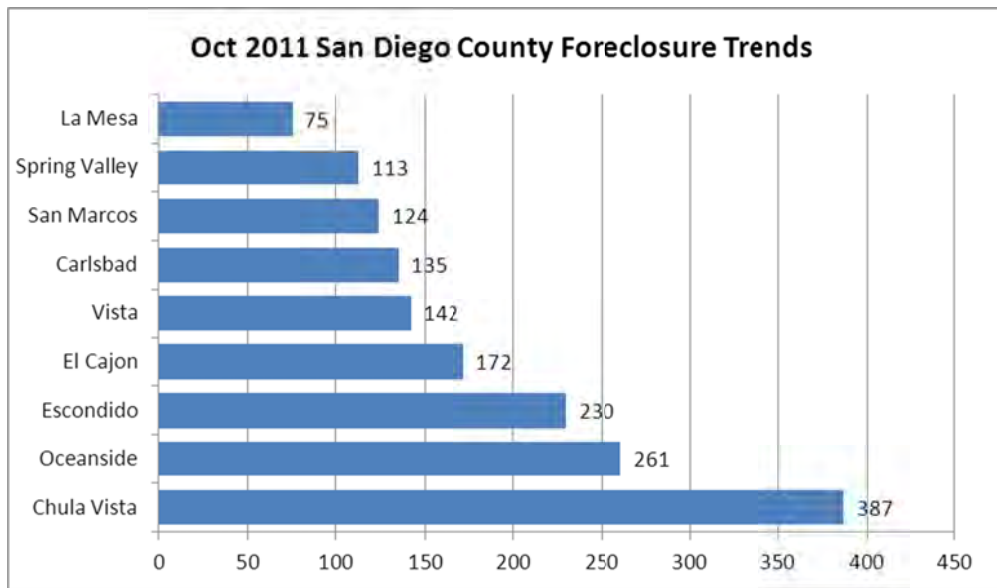
Overall annual population growth for San Diego County from 1999 to 2010 has averaged 1.4%. The City of Chula Vista's annual population growth for the same time period averaged 3.3%. Based on estimates provided by SANDAG (San Diego Association of Governments), the forecasted average annual growth for Chula Vista from 2008 to 2050 is projected at 0.9%.



*Estimated based on a 0.9% annual increase as reflected in the SANDAG 2050 Subregional Growth Forecast
 Actual population numbers obtained from California State Department of Finance.
 2010 Increase reflects Adjustments per Census Data

In 2003, based on population estimates released by the Census Bureau, Chula Vista was identified as the 7th fastest growing city in the United States. The growth continued through 2006. By mid-2007 the mortgage crisis came to light and the City began experiencing a significant number of foreclosures. Foreclosures had a significant negative impact on property tax revenues 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.

In October 2011, based on information from DataQuick, a real estate analytical firm in San Diego, reported that after dropping to a three-year low in the second quarter of this year, the number of California homeowners being pulled into the foreclosure process snapped back to prior levels over the last three months. A total of 71,275 Notices of Default (NoDs) were recorded at county recorders offices during the third quarter. That was up 25.9 percent from 56,633 for the prior three months, and down 14.4 percent from 83,261 in third-quarter 2010. As previously discussed, Chula Vista was hardest hit in the County due to the housing boom which occurred from 2000-2005.



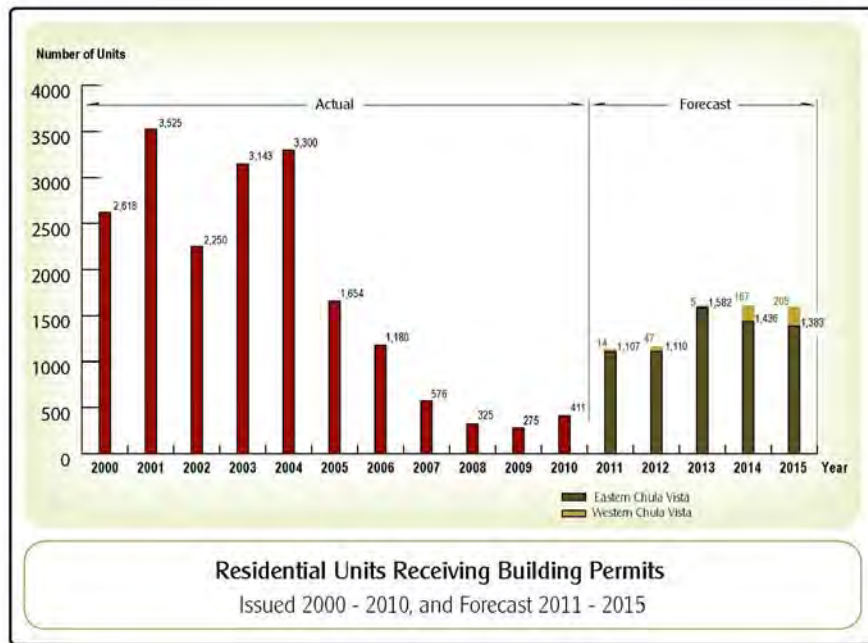
According to DataQuick, San Diego County's resale housing prices fell by 6.0% in the third quarter of 2011 when compared to the third quarter of 2010. The median price for single-family homes in San Diego was \$315,000 falling by 6.0% and in Chula Vista it was \$308,000 falling by 7.8% from a year ago.

The California State Department of Finance (DOF) estimates that Chula Vista has an average of 3.10 people per household. Assuming that this estimate remains valid over the next five years, and assuming a 3.01% vacancy rate, Chula Vista can expect a total population of approximately 259,812 by the end of 2015. This is based on the following:

- The California State Department of Finance estimated Chula Vista’s population on January 1, 2010 at 237,595.
- An additional 326 units were occupied from January 1, 2010 to November 2010; and
- An additional 7,056 units may be permitted between November 2010 and December 2015 which reflects an aggressive forecast used to evaluate the maximum likely effect that growth will have on maintaining the quality of life, and the ability to provide concurrent development of necessary public facilities and services.¹⁷

This is a rough estimate and used for planning purposes, as the vacancy rate, persons per unit factors, and the number of actual units completed may vary.

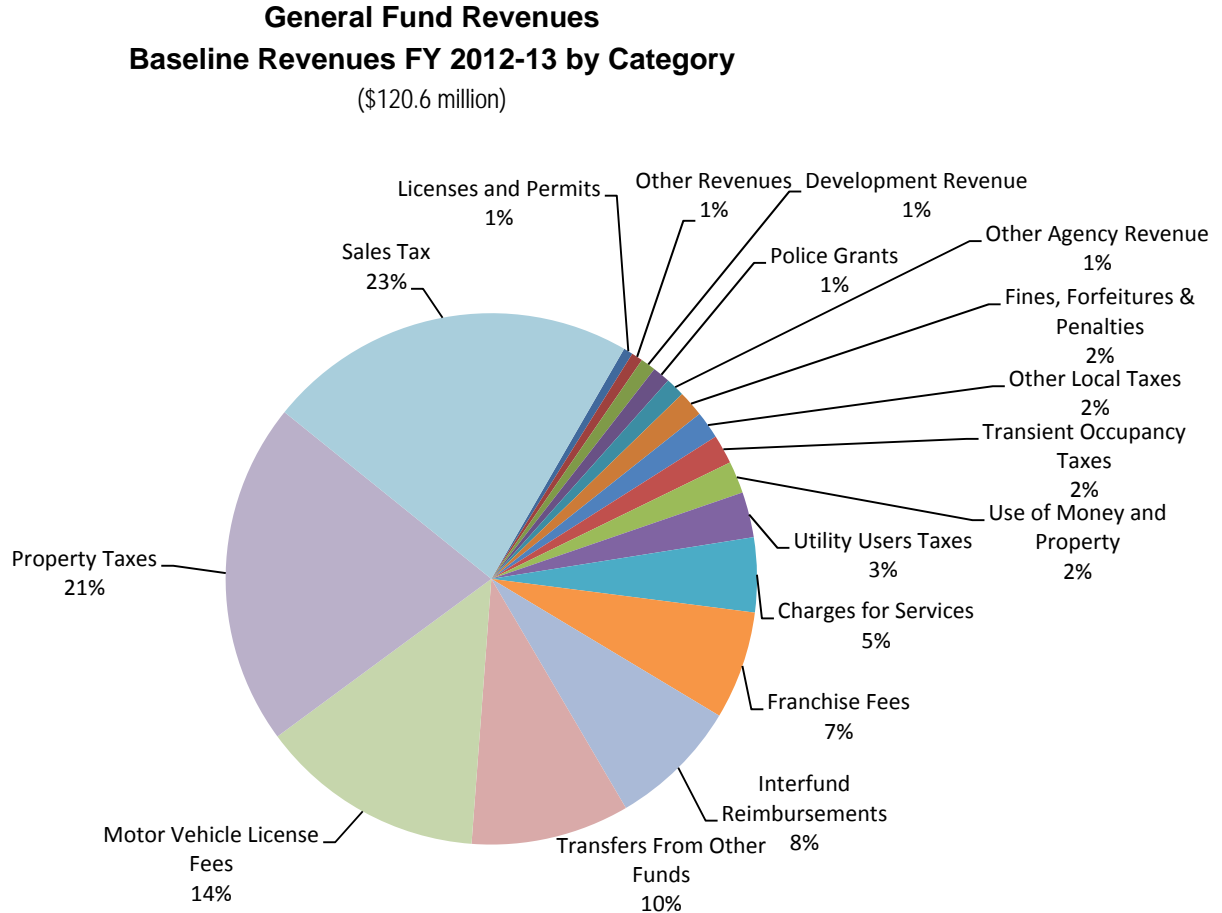
The General Plan identified the capacity for an additional 30,000 units throughout the City through build out. Over the next decade residential growth rates are expected to be significantly below the growth experienced during the development boom years of 1999 - 2005.



¹⁷ Growth Management Oversight Commission (GMO) Report April 7, 2011

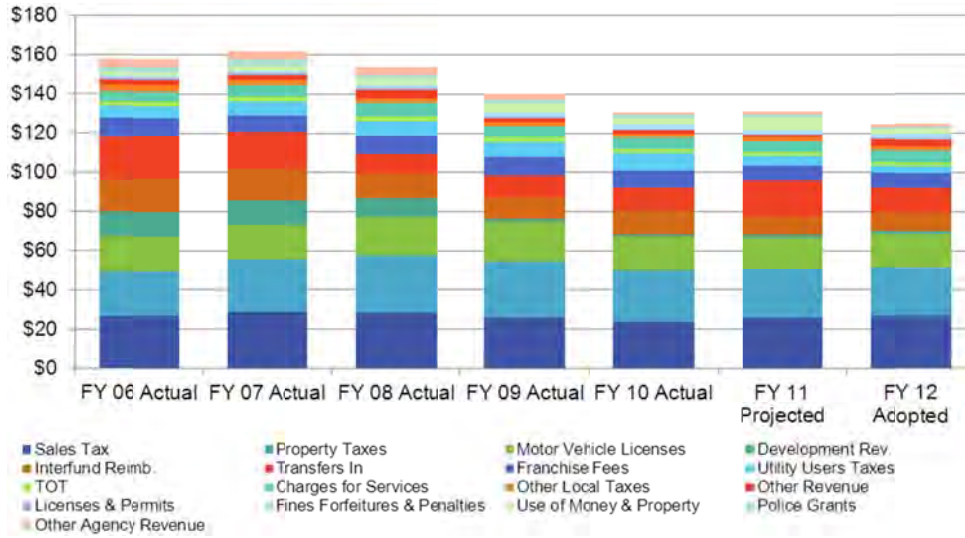
General Fund Major Revenues and Expenditures

Major General Fund Revenues



One of the City's strengths has been its diversified revenue base. A diversified revenue base lessens the impact that fluctuations in specific economic sectors have on the City's ability to provide services. Although the City maintains a diversified revenue base, the current recession was so severe that almost every revenue category was impacted. It will be imperative to the City's fiscal sustainability that it continues to focus on adding to the base by capturing revenues such as City's TOT (hotel tax) by attracting additional overnight stays and hotels.

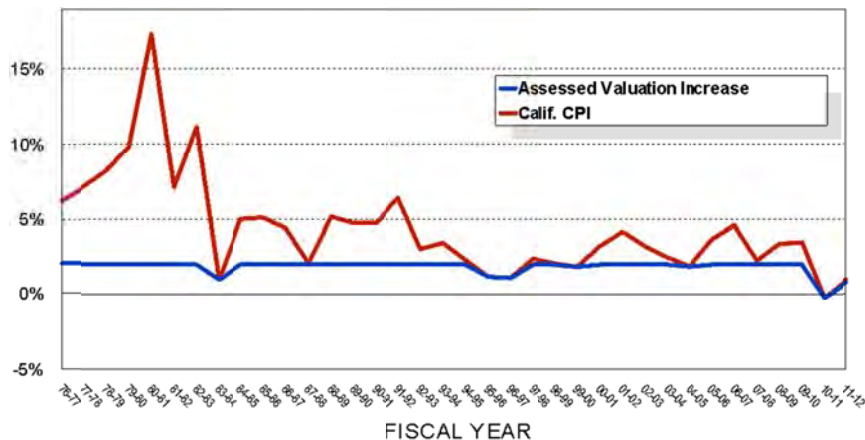
Historical and Estimated General Fund Revenue Sources Fiscal Years 2005-06 through 2011-12



Property Taxes

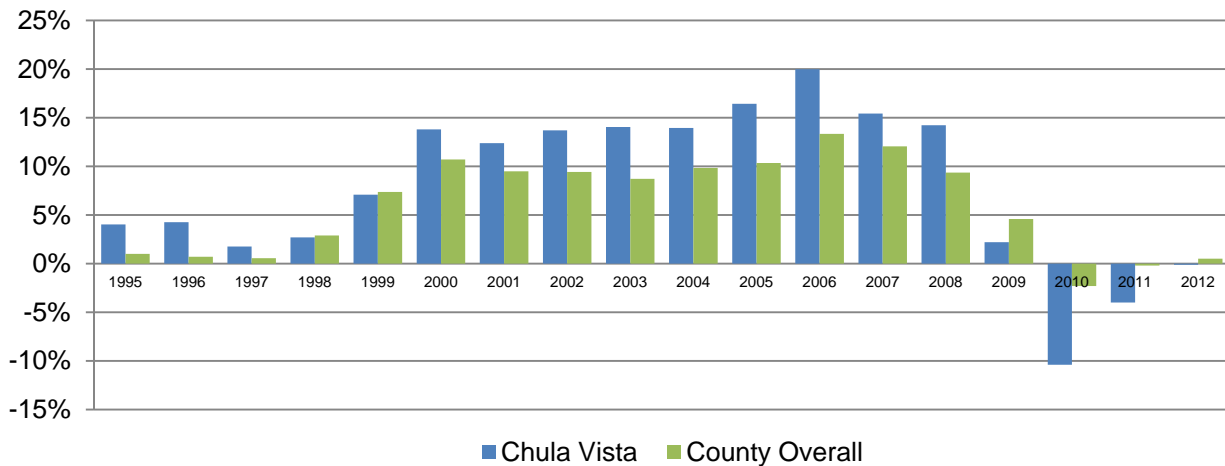
Under Proposition 13, which was enacted in 1979, property taxes for general government purposes are limited to 1% of the market value of the property assessed. Assessment of qualifying property, as well as collection and apportionment of tax revenues are all functions performed by the County. Increases to assessed values to reflect current market values are only allowed when property changes hands or when the property is improved. Otherwise, annual assessment value increases are limited to 2% or the increase in the consumer price index, whichever is lower. As the chart below indicates, in fiscal year 2010-11 CPI actually went negative. As a result, the County Assessor adjusted the entire Assessed Value base impacting property tax revenues received by taxing agencies.

Countywide Historical Changes in Assessed Value Compared to Changes in the California CPI



Property tax values have continued to fall throughout this economic recession with Chula Vista being one of the harder hit areas. The large number of foreclosures have depressed housing values, and the significant drop in home resale prices has dramatically reduced supplemental property tax revenues. Supplemental property taxes are calculated based on the difference between the current value of a property and the resale value of the property. Typically, property values increase as a property is resold. Due to the current housing crisis, most home resale values have dropped, resulting in a large reduction in supplemental property tax revenue.

Historical Change in Assessed Value City of Chula Vista and Countywide Comparison



Source: County of San Diego Assessors Office.

Historically property tax revenues have comprised the City's largest discretionary revenue source. Due to the significant decline in assessed value, property tax revenues have fallen behind sales tax revenues as the largest discretionary revenue source. Property taxes account for 20.3% of the total revenue for the General Fund.

Property Tax Revenue Annual Percent Change

Fiscal Year	Actual 2011	Adopted 2012	Baseline 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017
Property Tax	\$24.7 million	\$25.2 million	\$25.2 million	\$25.6 million	\$26.0 million	\$26.5 million	\$27.4 million
% Change	-4.0%	2.1%	0%	1.5%	1.5%	2.0%	3.3%

The following graph reflects how property tax revenues are allocated to local government entities. As reflected on the graph, the City of Chula Vista receives approximately 15 cents from every dollar paid in property taxes.

Where do your Property Tax Dollars Go?



Sales Taxes

Prior to fiscal year 2004-05, the City received revenue from a 1% sales tax applied to all taxable retail sales occurring within the City limits. Beginning in fiscal year 2004-05, the State reduced the local allocation by 0.25% and applied these funds as security for the State's Economic Recovery Bonds. The State committed to replacing the 0.25% sales tax revenues dollar-for-dollar in local property taxes from the County Educational Revenue Augmentation Fund (ERAF). For forecasting and comparison purposes, sales tax revenues are projected at the full 1% rate.

Sales tax revenues are collected by the State at a rate of 7.75% for the San Diego County region. The sales tax revenues are then allocated based on the following rates:

State	6.00%
State Fiscal Recovery Fund (Economic Recovery Bonds)	0.25%
Local Jurisdiction (City or County of place of sale/use)	0.75%
Local Transportation Fund (County of place of sale/use)	0.25%
Local San Diego County Transnet Funding	0.50%
*Total Sales Tax Rate – Chula Vista	7.75%

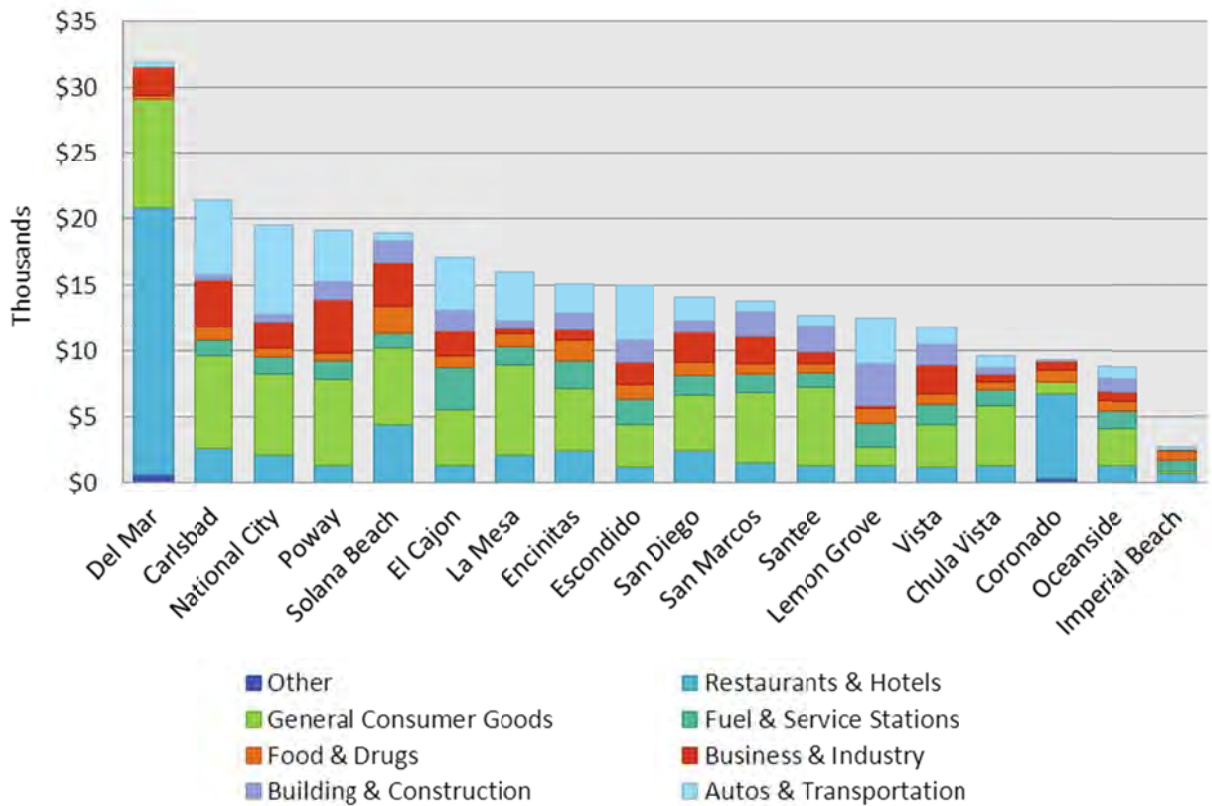
*Total sales tax rates will vary by City due to local sales tax initiatives. For example, National City's sales tax rate is 8.75% due to a voter approved increase of 1% funding public services.

Sales tax revenue is highly sensitive to economic conditions, and reflects the factors that drive taxable sales, including the levels of unemployment, consumer confidence, per-capita income, and business investment. Sales tax revenue is the City's largest discretionary revenue source, accounting for 21.2% of total revenue for the General Fund in fiscal year 2011-12. Due to the current economic recession consumer spending has decreased significantly nationwide. However,

locally, sales tax revenues are beginning to improve due to modestly improved economic indicators.

Chula Vista continues to be challenged in the generation of per capita sales taxes when compared to other County cities. As noted on the following chart, sales tax on a per capita basis for the City is only \$95 compared to the average of \$147. This comparison indicates that the City's residents spend a high percentage of their retail dollars elsewhere. This in light of that a healthy share of the City's sales tax revenues are generated by cross-border shoppers. The City must continue to place a high priority on developing its retail business base and seek economic development projects which will assist in capturing sales tax revenues currently being lost to neighboring cities.

Fiscal Year 2010-11 Taxable Sales Tax Per Capita



Source: Hinderliter de Llamas and Associates

Sales Tax Revenue

Annual Percent Change

Fiscal Year	Actual 2011	Adopted 2012	Baseline 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017
Sales Tax	\$26.7 million	\$26.4 million	\$27.2 million	\$28.0 million	\$28.9 million	\$29.7 million	\$30.6 million
% Change	12.8%	-1.1%	3.0%	3.0%	3.0%	3.0%	3.0%

Note: The Actual 2011 sales tax revenues include a prior year adjustment. The actual economic trend is closer to 4%

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 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 and remitted to the City on a monthly and quarterly receipt of the revenues respectively. Revenue growth is projected based on population and inflation factors.

The following illustrates the historic and projected revenue trends for the City's Franchise Fee revenue. As shown in the following chart, the City has experienced a significant decline in franchise revenues due to the closure of the South Bay Power Plant.

Franchise Fee Revenue
Annual Percent Change

Fiscal Year	Actual 2011	Adopted 2012	Baseline 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017
Franchise Fee	\$8.3 million	\$7.5 million	\$7.9 million	\$8.1 million	\$8.3 million	\$8.4 million	\$8.6 million
% Change	-2.4%	-8.8%	5.4%	2.0%	2.0%	2.0%	2.0%

Motor Vehicle License Fees

The Motor Vehicle License Fee (MVLFF) was initially established in 1948 and directed to local government. The State originally assessed a 2% of value on car registrants on behalf of local governments. In May 2004, in an attempt to assist with the State's fiscal crisis, the State dropped the VLF fee from 2% to 0.65%. The State back-filled this fee reduction with other State funds, with the exception for the first three months of fiscal year 2004-05.

As a result of this change by the State, 97% of the City's VLF revenues now change along with assessed values that are driven by changes in the real estate market. The remaining 3% was being allocated based on a per capita basis formula. In July 2011, the State took the per capita portion of the revenue from local agencies to assist in balancing the State's budget adding additional financial strain to local governments.

Motor Vehicle License Fee Revenue
Annual Percent Change

Fiscal Year	Actual 2011	Adopted 2012	Baseline 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017
MVLF In-Lieu	\$16.4 million	\$16.5 million	\$16.5 million	\$16.8 million	\$17.0 million	\$17.4 million	\$17.7 million
% Change	-4.0%	1.0%	0.5%	1.5%	1.5%	2.0%	2.0%
MVLF	\$0.6 million	\$0.7 million	\$0	\$0	\$0	\$0	\$0
% Change	-14.0%	16.0%	-100%	0%	0%	0%	0%

Utility Users Tax

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 5% of gross receipts and 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.

At the June 8, 2010 Council meeting the City Council voted to add a measure (Proposition H) to the November ballot asking voters to consider a measure updating the City's Utility Users Tax ordinance to reflect technological changes in the telecommunications industry. This measure was not approved by the voters and the estimated revenues associated with this measure are no longer assumed in the base budget.

Utility Users Tax Revenue Annual Percent Change

Fiscal Year	Actual 2011	Adopted 2012	Baseline 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017
Utility User Tax	\$4.9 million	\$3.2 million	\$3.3 million	\$3.4 million	\$3.4 million	\$3.4 million	\$3.5 million
% Change	-45.4%	-34.4%	2.7%	1.0%	1.0%	1.0%	1.0%

Transient Occupancy Tax (TOT)

The City of Chula Vista imposes a Transient Occupancy Tax (TOT) upon all hotel stays within the City boundaries. The TOT tax rate in the City is 10%. The potential for significant revenue growth is feasible provided overnight stays increase and quality hotels are built in the City. Several potential new hotel developments are being proposed in the City primarily in the Millenia Project (Eastern Urban Center) and the Bayfront. Due to the uncertainty regarding the tourism market and with the objective of maintaining a conservative forecast, no additional TOT revenues are assumed related to these developments.

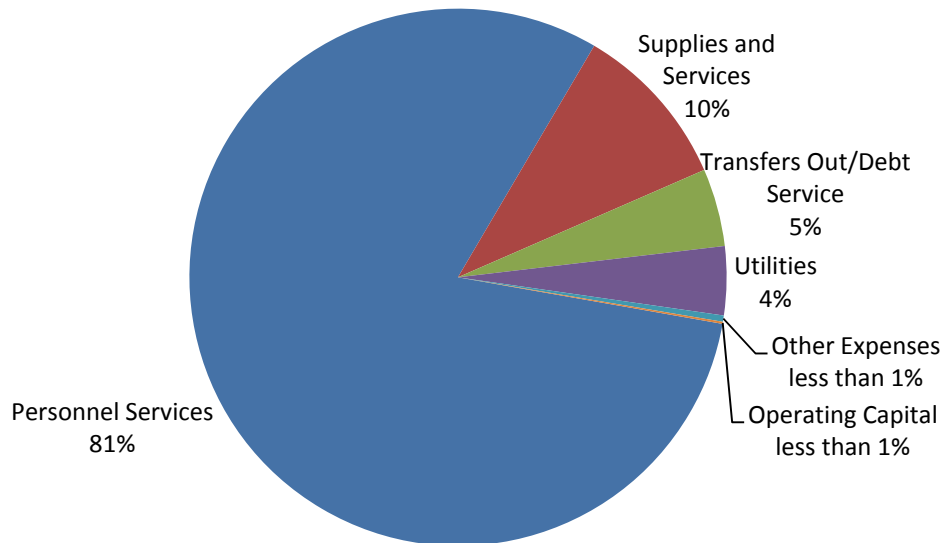
Transient Occupancy Tax Revenue Annual Percent Change

Fiscal Year	Actual 2011	Adopted 2012	Baseline 2013	Forecast 2014	Forecast 2015	Forecast 2016	Forecast 2017
TOT	\$2.1 million	\$2.1 million	\$2.1 million	\$2.2 million	\$2.2 million	\$2.3 million	\$2.3 million
% Change	1.0%	1.4%	2.0%	2.0%	2.0%	2.0%	2.0%

Note: Other than a 2% inflationary factor, no major increases in TOT revenues are anticipated throughout the forecast period.

Major General Fund Expenditures

General Fund Expenditures
Base Expenditures by Category for FY 2012-13
(\$123.6 million)



The fiscal year 2012-13 preliminary baseline budget totals \$123.6 million, a decrease of approximately \$1.0 million (-0.8%) when compared to the fiscal year 2011-12 Council Adopted Budget that totaled \$124.6 million. The fiscal year 2012-13 preliminary baseline budget serves as the basis for the forecast years 2013-14 to 2016-17. The Five Year Financial Forecast reflects a relatively flat General Fund budget; the table below includes the changes by fiscal year in each expenditure category.

Summary of General Fund Expenditure Categories
Percent Change Compared to Prior Year

Description	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Personnel Services	3.6%	1.5%	1.1%	1.7%	2.2%
Supplies and Services	-4.3%	2.4%	1.8%	1.8%	1.8%
Utilities	0.8%	3.0%	3.0%	3.0%	3.0%
Other Expenses	4.5%	0.0%	0.0%	0.0%	0.0%
Capital	-55.8%	0.0%	0.0%	0.0%	0.0%
Transfers Out	-38.5%	6.9%	-4.2%	0.6%	0.6%
CIP	-100.0%	0.0%	0.0%	0.0%	0.0%
Total	-0.8%	1.9%	1.0%	1.7%	2.1%

The major assumptions included in the fiscal year 2013 preliminary baseline and the assumptions used in the development of the forecast are described below by expenditure category.

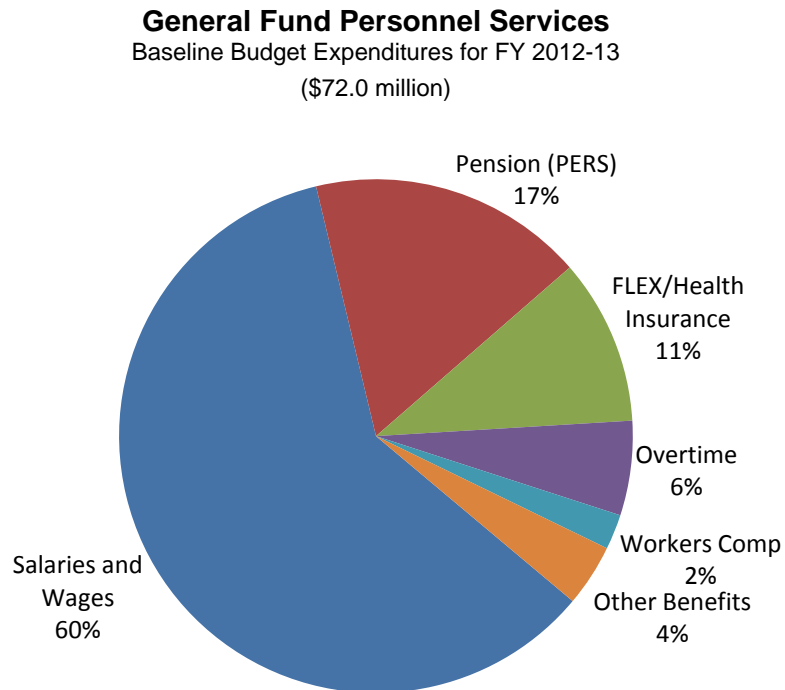
Personnel Services

Personnel Services expenditures represent 81% of the General Fund budget. The personnel services category increased as a percentage of the total General Fund budget due to continued reductions in the other expenditure categories, primarily debt. Included in this expenditure category are the costs for employee salaries and benefits. The personnel services budget for fiscal year 2012-13 reflects a 3.6% increase when comparing it to the fiscal year 2011-12 Council adopted budget. The baseline personnel budget for fiscal year 2012-13 reflects the following:

- Added Memorandum of Understanding (MOU) increases for employees represented by the Police Officers Association (POA) and the International Association of Fire Fighters (IAFF).
- Increased flex/health insurance premiums based on estimated rate increase
- Eliminated Chula Vista Employees Association (CVEA) furlough
- Added 1.0 Evidence Control Assistant position approved mid-year (grant funded)

It is important to note that positions frozen in fiscal year 2011-12 continue to be frozen in fiscal year 2012-13 and throughout the forecast period. The baseline budget does not assume funding for any frozen position nor are they included in any of the position counts. It is also assumed that no new positions will be added during the forecast period.

The following chart reflects the major expenditures included in the Personnel Services expenditure category.



The financial forecast assumes that most expenditure objects remain flat with the exception of the following:

- Salaries and other objects impacted by negotiated cost of living adjustments for POA and IAFF were adjusted in fiscal year 2013-14 to reflect the annualized cost of the January 2013 scheduled raises. After the expiration of the current MOUs no additional cost of living adjustments are included in the forecast for any bargaining group.
- Pension costs are adjusted based on the estimated employer contribution rates provided by CalPERS.
- Flex/Health Insurance costs are increased based on estimated health care insurance premium increases.

Additional information on these changes is provided below:

Salaries and Wages - Salaries and Wages reflect the single largest expense in Personnel Services, these costs account for salaries for permanent and hourly employees. In fiscal year 2012-13, the increase in these expenditures is largely due to negotiated salary increases for POA and IAFF and the elimination of the CVEA furlough. MOUs with CVEA, WCE and Mid Managers/Professionals are scheduled to expire on June 30, 2012. MOUs for IAFF and POA are scheduled to expire on June 30, 2013. No salary increases are assumed for any employee group beyond the current contracts. The following chart reflects the cost of living adjustments scheduled in fiscal year 2011-12 and fiscal year 2012-13.

Summary of Cost of Living Adjustment (COLA) by Bargaining Group

Bargaining Unit	Fiscal Year 2011-12		Fiscal Year 2012-13	
	July 2011	January 2012	July 2012	January 2013
Police Officers Association	1.0%	1.5%	1.5%	1.0%
International Association of Firefighters	0.0%	0.0%	2.0%	2.5%
Chula Vista Employees Association	0.0%	0.0%	--	--
Western Council of Engineers	0.0%	0.0%	--	--
Executives and Senior Managers	0.0%	0.0%	--	--
Chula Vista Mid Managers and Professional Association	0.0%	0.0%	--	--
Confidential	0.0%	0.0%	--	--
Unclassified Hourly	0.0%	0.0%	--	--

Notes:

5. The current contracts with CVEA, CVMM/PROF, and WCE expire on 6/30/2012. The contracts with IAFF and POA expire on 6/30/2013.
6. As part of the most recent side letter, POA is scheduled to receive longevity pay beginning July 1, 2012. Employees shall receive longevity pay in the form of a 3% increase in their base pay when they have served fifteen or more complete years of full time service.

Pension Costs (CalPERS) – Pension costs account for 17% of Personnel Services, the second largest expense in this category. Pension costs reflect the payments the City makes to CalPERS funding pensions for permanent employees (active and retirees). In October 2011, CalPERS issued the annual valuation report which provided the actual employer contribution rate for fiscal year 2012-13 and projected employee contribution rate for fiscal year 2013-14 taking into account the investment returns as of June 30, 2011. The CalPERS annual valuation report also includes a range of estimated employer contribution rates based upon various investment return scenarios for fiscal years 2015 to 2017.

The City contracts with Bartel and Associates LLC to provide independent actuarial analysis and recommendations in relation to the City's pension plans. As part of their analysis, Bartel and Associates LLC evaluate the potential changes to the projected contribution rates over a five-year time frame. Bartel and Associates recommended using one of the more conservative contribution rates provided by CalPERS mainly due to the following - anticipated slow growth in the investment market and possible changes to the investment return of 7.75% assumed by CalPERS. In order to provide a conservative forecast, the City assumed estimated contribution rates based on a 2.93% investment return. These projected rates are used in the financial forecast in order to provide a long-term view of the anticipated budgetary impacts related to potential pension cost increases and the City's ability to remain structurally balanced.

The following table reflects the actual and forecasted employer contribution rates used to project retirement benefit costs.

Employer CalPERS Contribution Rates

Employee Group	FY12 Actual	FY13 Actual	FY14 Forecast	FY15 Forecast	FY16 Forecast	FY17 Forecast
Miscellaneous	22.7%	23.7%	23.9%	24.3%	25.6%	27.4%
Public Safety	26.1%	26.5%	26.8%	27.3%	28.4%	30.6%

1. CalPERS provided the 2012-13 employer contribution rates and are included in the base budget. Rates for 2014 to 2017 are based on CalPERS forecast based on a 2.93% investment return.
2. Employee contribution rates of 8% and 9% for Miscellaneous and Public Safety respectively are not included in the table above. All bargaining groups (represented and non-represented) have agreed to pay their share of pension cost.

It is important to note that the employee's contributions toward their share of pension costs that began in January 2011 assisted in balancing the operating budget and reduced the City's overall pension costs. However, pension costs continue to be an area of concern due to the volatility in the investment market and the continued impact of past investment losses. As noted earlier in this report the City is exploring ways to improve the funded status of both the miscellaneous and safety plan.

Flex/Health Insurance (Health Care Costs) - Flex/Health Insurance represents 11% of the Personnel Services budget; these costs account for health care costs for permanent employees. The following table reflects the annual increase in premiums when compared to the prior year. The City provides two health care plan options for medical insurance, Kaiser and Aetna.

Premium Increases by Health Care Provider
(FY 2006-07 to FY 2011-12)

Date of Premium Increase	Kaiser	PacifiCare/ AETNA ¹	Average
January 2007	8.5%	16.4%	12.5%
January 2008	5.0%	-2.8%	1.1%
January 2009	8.9%	4.0%	6.5%
January 2010	5.6%	15.3%	10.5%
January 2011	5.3%	8.0%	6.7%
January 2012	12.1%	7.0%	9.6%
Annual Average Premium Increase	7.6%	8.0%	7.8%

1. Prior to 2009, the City contracted with Kaiser and PacifiCare, for that reason the non-Kaiser plan is represented as PacifiCare/Aetna.

Kaiser and PacifiCare/AETNA insurance premiums have increased an average of 8% per year since fiscal year 2005-06. Aetna informed the City of a projected rate increase of 14% for January 2013. Recent discussions with health care professionals indicate these high trends in health care costs are likely to continue for the foreseeable future. Forecast years 2014 to 2017 reflect a premium increase of 10% annually.

Supplies and Services

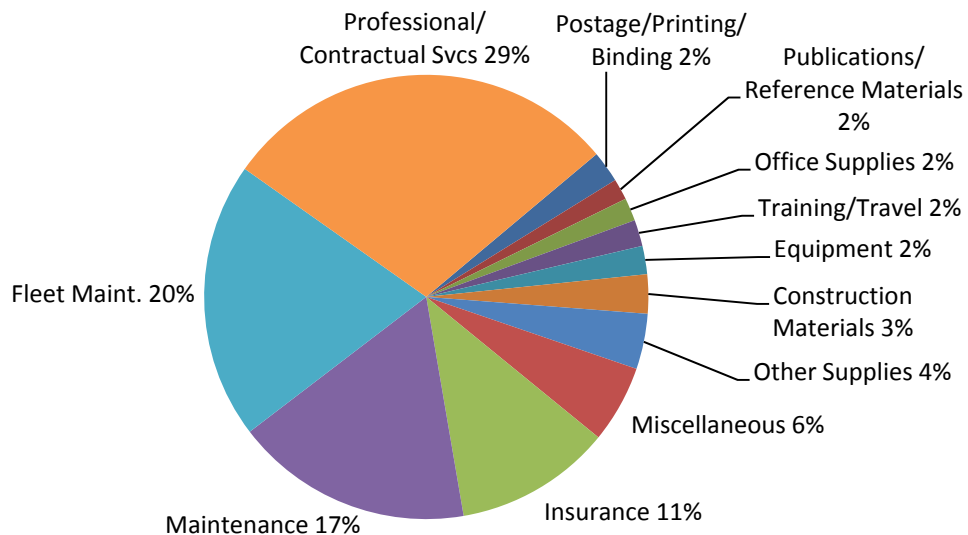
The Supplies and Services expense category represents approximately 10% of General Fund expenditures. The baseline budget for fiscal year 2012-13 reflects a 4.3% decrease when comparing it to the fiscal year 2011-12 Council adopted budget. The baseline budget for fiscal year 2012-13 reflects the following:

- Reduced elections budget to reflect a normal elections year. (\$608,000)
- Reduced unemployment insurance based on the assumption that no additional layoffs of permanent staffing will occur. (\$475,000)

- Increased Public Liability Insurance premiums based on the most recent cost estimate. (\$130,000)
- Restored supplies and services cuts imposed during the adoption of the fiscal year 2011-12 General Fund operating budget. (\$363,000)

The following chart reflects the major expenditures included in the Supplies and Services expenditure category.

General Fund Supplies and Services
Base Expenditures for FY 2012-13
(\$12.3 million)



For the forecast years 2014 to 2017, this category was adjusted to reflect a 2.0% increase on all expenditure objects with one exception. The fleet maintenance object was increased from \$2.5 million in fiscal year 2013 to \$2.6 million in fiscal year 2014 based on anticipated increased costs to maintain an aging fleet of vehicles. A 1% increase was then applied to each of the following fiscal years. In total this resulted in a net increase of approximately 2% for this expenditure category.

Major expenditures included in this category:

- Professional/Contractual Services represent 29% or \$3.6 million of the Supplies and Services category. Included in this category are costs for fire dispatch services with the City of San Diego (\$460,000), outside attorney services (\$297,000), veterinary services at the Animal Care Facility (\$172,000), and the cost for membership in the County of San Diego Emergency Management (HIRT) program (\$172,000).

- Fleet Maintenance costs represent 20% or \$2.5 million of the General Fund Supplies and Services expenditure category. These costs reflect the reimbursement to the Fleet Fund for the cost of maintaining City owned vehicles – included in these costs are reimbursements for Fleet Fund staff, fuel costs, and materials to maintain automotive equipment.
- Maintenance costs represent 17% or \$2.1 million of Supplies and Services category. This includes costs for computer hardware and software maintenance and licensing (\$633,000), building maintenance (\$437,000), communication equipment maintenance (\$241,000), janitorial supplies (\$148,000), grounds maintenance (\$100,000) and pool maintenance (\$79,000)
- Insurance costs represent 11% or \$1.4 million of the Supplies and Services category. This category includes fire insurance, public liability/property damage insurance and unemployment insurance.
- The Miscellaneous category represents 6% or \$0.7 million of the Supplies and Services category. The largest components of this group are wearing apparel (\$262,000), membership/dues (\$206,000), cell phone service (\$100,000), and laundry and cleaning (\$66,000).
- Other Supplies represent 4% or \$0.5 million of the Supplies and Services category. Included in this category are medical and lab supplies (\$202,000), traffic control supplies (\$161,000), food products for the Police K-9 Unit and the Animal Care Facility (\$50,000), ammunition for the Police Department (\$38,000), and recreation supplies (\$22,000).
- Construction Materials represent 3% or \$0.4 million of the Supplies and Services category. Included in this category are materials costs for street and storm drain maintenance.
- Postage/Printing/Binding costs represent 2% or \$0.3 million of the Supplies and Services category. Included in this category are printing and binding costs (\$176,000), postage (\$98,000), and minor expenditure costs for photography/blueprint (\$9,000).
- Equipment costs represent 2% or \$0.3 million of the Supplies and Services category. This category includes purchase or rental of safety equipment, office equipment, computer equipment, and communications equipment.
- Training/Travel costs represent 2% or \$0.2 million of the Supplies and Services category. Included in this category are costs for training (\$129,000), POST training (\$58,000), transportation allowance (\$24,000), and travel/conference/meetings (\$22,000).
- Office Supplies represent 2% or \$0.2 million of the Supplies and Services category. Major expenditures in this category include copier paper, envelopes, toner cartridges, and computer supplies such as disks and flash drives.

- Publications/Reference Materials represent 2% or \$0.2 million of the Supplies and Services category. This category includes materials used in most City departments such as maps, instructional/reference books, periodicals, and audio visual materials as well as including acquisition materials for the Public Library.

Transfers Out/Debt Service

The Transfers Out/Debt Service expenditure category represents 5% of total General Fund expenditures. This category reflects the transfers out to other funds for expenditures related to debt service, grant funds, public liability expense fund, and development services fund. The baseline budget for fiscal year 2012-13 reflects a 38.5% decrease from the fiscal year 2011-12 Council adopted budget due to reduced debt obligations. The baseline budget for fiscal year 2012-13 reflects the following:

- Eliminated the transfer out for debt service related to the pension obligation bond (\$2.8 million)
- Reduced the transfer out to the public liability expense fund (\$200,000)
- Reduced the transfer out to the residential construction tax fund (\$100,000)
- Increased the transfer out to the Police Grants fund due to phasing out of grant funds and to avoid the reduction of sworn staff (\$181,700)
- Eliminated one-time transfers out (\$88,600) to the recreation grant fund
- Reduced the transfer out for 2010 COP debt service (\$442,200) related to debt restructuring
- Reduced the transfer out to the Development Services Fund to bring in line with anticipated permit activity (\$218,500)

For the forecast years this category reflects the following changes:

- Fiscal year 2014 reflects an increase of 6.9% – this increase is related to an increase in the transfers out to the Public Liability Fund and the Residential Construction Tax Fund. Based on the available fund balance in these funds, a temporary reduction in funding from the General Fund is assumed in the fiscal year 2012-13 baseline budget.
- Fiscal year 2015 reflects a decrease of 4.2% largely due to the final debt payment for the San Diego County Regional Communication System.
- Fiscal year 2016 and 2017 reflect an increase of less than 1% due to small increases in debt service payments.

Utilities

The Utilities expense category represents 4% of total General Fund expenditures. This category includes budgeted costs for phone service, gas and electric, trash collections and disposal, water, and wireless and data access charges. In fiscal year 2013, this expenditure category was initially adjusted to bring in line with historical trends and then adjusted to reflect anticipated rate increases. These changes resulted in an increase of 0.8% when compared to the fiscal year 2011-12 adopted budget. For the forecast years, this expenditure category reflects a 3% annual increase.

Other Expenses

The Other Expenses category represents less than 1% of total General Fund expenditures. A total of \$468,000 is allocated to this category. It is largely composed of costs related to reimbursement to other agencies (Toyota Tax Sharing Agreement and Third Avenue PBID) as well as funds allocated to repair damage made to City property. The baseline budget for fiscal year 2012-13 reflects a 4.5% increase when comparing it to the fiscal year 2011-12 Council adopted budget. This increase is related to an increase in reimbursement to other agencies. No additional changes are anticipated in this category for the forecast period.

Capital (Operating) Expenses

The Capital expenses category represents less than 1% of total General Fund expenditures. A total of \$158,500 is allocated to this category. It includes replacement costs for computer equipment and software. The baseline budget for fiscal year 2012-13 reflects a 55.8% decrease when comparing it to the fiscal year 2011-12 Council adopted budget. This decrease is related to the elimination of one-time systems upgrade purchase that was included in the fiscal year 2011-12 adopted budget. No additional changes are anticipated in this category for the forecast period.

Capital Improvement Project (CIP) Expenses – (General Fund Only)

No CIP expenditures are included in the fiscal year 2012-13 baseline budget. The fiscal year 2011-12 budget included \$70,000 for two CIPs – an upgrade to the Auto CAD and the installation of a water meter at Fire Station 4. The forecast does not assume any funding from the General Fund for CIP projects.

