



Quarterly Financial Report First Quarter Ending September 30, 2011 October 25, 2011

OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through September 30, 2011 and projecting out to June 30, 2012. The purpose of this report is to provide the City Council, Management and the Citizens of Chula Vista an update on the City's fiscal status based on the most recent financial information available.

ECONOMIC UPDATE

In 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.¹

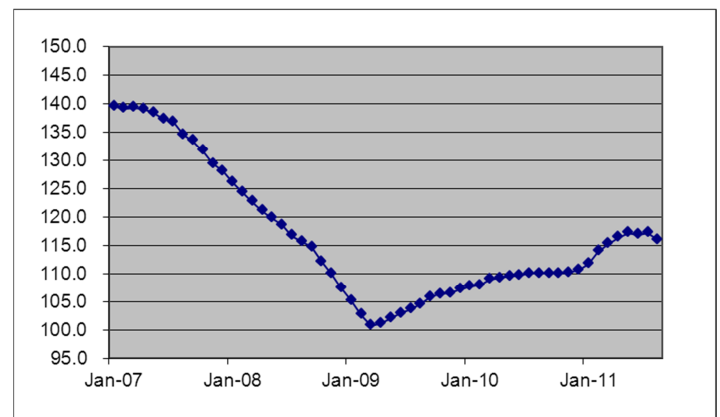
The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County fell 1.0 percent in August. The downward move was led by sharp declines in local stock prices, consumer confidence, and building permits. These overwhelmed moderate increases in help wanted advertising 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.

The economic and political situations have gotten people in an ugly and pessimistic a 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 for positive but 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.²

San Diego Index of Leading Economic Indicators



GENERAL FUND SUMMARY

City Council Policy No 220-03 recommends the City maintain at least an 8 percent reserve level with a long-term goal of 15 percent. As of June 30, 2011, the General Fund reserve level was at 8.2 percent (unaudited).

¹ UCLA Anderson Forecast Press Release September 20, 2011.

² University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, September 27, 2011.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2011 (unaudited)	\$ 10.2	\$ 10.2
Revenues & Transfers In	124.9	124.5
Expenditures & Transfers Out	(124.9)	(125.4)
Projected Surplus/Deficit	0.0	(0.9)
Projected Fund Balance - June 30, 2011	\$ 10.2	\$ 9.3
Percentage of Operating Budget	8.2%	7.4%

The year-end independent audit is underway and final audited numbers for fiscal year 2010/11 will be presented to Council in 60 days. For this reason the final audited numbers for the General Fund are not available at this time and therefore continue to reflect an available balance of \$10.2 million in fiscal year 2011/12.

During the first quarter, the City's major revenue sources (property tax, sales tax, and vehicle license fees) are reflecting some minor variances when compared to budget but in total, major revenue sources are projected to meet budget. The programmatic revenues, most notably parking citations and staff time reimbursements, are currently projected to come in short (below budget) by approximately \$400,000 or 0.003% of total revenues. We anticipate that these revenues may be mitigated through the receipt of one time revenues received during the fiscal year.

Based on the first quarter projections, expenditures are projected to exceed budget. In total, the projections indicate that if these trends continue the overall General Fund budget would be overspent by approximately \$500,000. The over expenditures are occurring in the Fire Department's constant minimum staffing overtime category which is projected to go over budget by approximately \$1.0 million by year end. The primary cause for the increase in overtime expenditures is due to significantly higher workers compensation claims and administrative leave which trended up in the first quarter. Based on preliminary calendar year second quarter workers compensation information, the projections are conservative as the trend appears to be reversing. Once additional information is available, the projections will be updated.

Overall, the first quarter financial projections indicate some potential challenges as discussed previously. No budgetary adjustments are recommended at this time as potential savings from the elections budget and potential savings related to insurance would assist in mitigating any impacts to the General Fund reserves by year end.

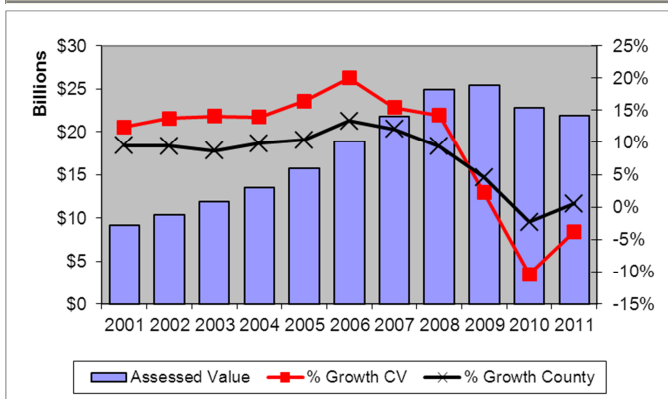
Revenues

Reflected in the table are discretionary and departmental programmatic revenues. The projections indicate that no adjustments to discretionary revenues are required at this time. Projections for Departmental programmatic revenues have been adjusted downwards by \$0.4 million and are mostly related to parking citation revenue and staff time reimbursements.

Revenues	FY 2011/12		Delta
	Budget	Projected	
Property Tax	25,230	25,230	0
Sales Tax	19,837	19,837	0
Sales Tax In Lieu (1/4%)	6,563	6,563	0
Motor Vehicle License Fee	17,201	17,201	0
Franchise Fees	7,533	7,533	0
Utility Users Tax	3,241	3,241	0
Transient Occupancy Tax	2,086	2,086	0
Business License Tax	1,213	1,208	(5)
Real Property Transfer Tax	850	850	0
Licenses and Permits	826	808	(18)
Fine, Forfeitures & Penalties	2,200	1,742	(458)
Use of Money and Property	2,235	2,255	21
Other Agency Revenue	2,668	2,715	47
Charges for Services	6,712	6,742	30
Other Revenues	13,974	14,022	48
Transfers From Other Funds	12,506	12,472	(34)
Total	\$ 124,876	\$ 124,507	\$ (369)

Property Taxes. The City of Chula Vista receives property tax revenue based upon a 1.0 percent levy on the assessed value of all real property. Property tax is the City's second largest revenue source, representing 20.2 percent of General Fund budgeted revenue in fiscal year 2011/12.

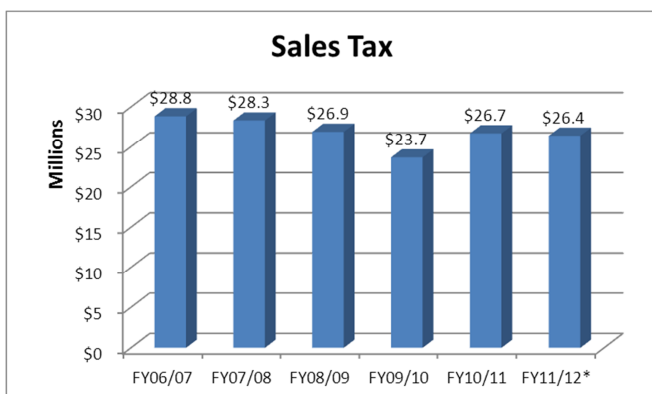
The fiscal year 2011/12 Property Tax budget anticipated a 2.1 percent increase primarily due to prior year collections. Property tax projections for the fiscal year indicate that no change from budget is required at this time.. The chart below compares the City's assessed values with the assessed values of San Diego County overall.



Sales Tax. Sales tax is the City's largest revenue source, representing 21.1 percent of fiscal year 2011/12 budgeted revenues. The sales tax budget for fiscal year 2011/12 anticipated an 11.7 percent increase over the prior year budget. The large increase was warranted based on fiscal year 2010-11 actual collections of \$26.7 million.

City staff has received sales tax data from the City's sales tax consultant, HdL Companies. They report that the change in sales tax receipts between second quarter calendar year 2011 and second quarter calendar year 2010 increased by 9.7 percent Statewide, by 7.62 percent in San Diego County and 4.17 percent in Chula Vista.

Sales tax projections for the fiscal year indicate that no change from budget is required at this time.



***Fiscal Year 11/12 is projected**

The chart represents actual sales tax collections since fiscal year 2006/07 when sales tax collected in the City peaked at \$28.8 million. Fiscal year 2011/12 is projected and does not reflect actual collections.

Motor Vehicle License Fee (VLF). With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. For FY 2005/06 and beyond, the majority of VLF revenues for each city will grow essentially in proportion to the growth in the change in gross assessed valuation. Due to the new formula by the State, 96% of the City's VLF revenues fluctuate with changes in assessed values in the City. The other 3 percent of VLF revenues received by the City are based on a per capita formula.

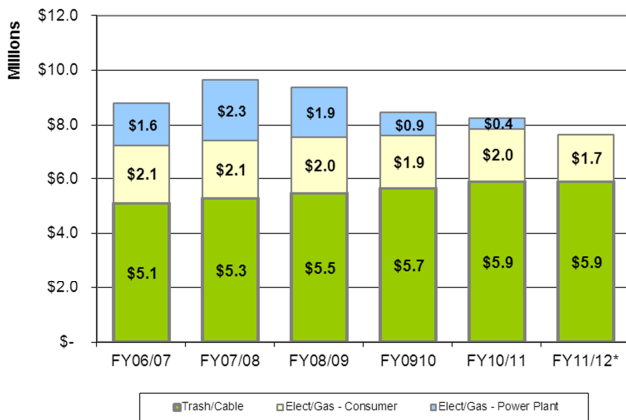
For the 2011-12 fiscal year, the Governor signed SB89. Provisions in SB89 shift hundreds of millions of Vehicle License Fee revenues to fund the state law enforcement grants beginning in FY2011-12.

Statewide, SB89 takes \$130 million of city general revenue and shifts it to save state law enforcement grant programs. Less than \$100 million of these police grant funds will go back to cities.

The City of Chula Vista is estimated to lose approximately \$687,029. This estimated loss will be offset by one-time VLF payments the City has received from the State for previous fiscal year amounts withheld by the State. VLF is budgeted at \$17.2 million and it is projected that the City will attain that amount. This will impact the financial forecast for the General Fund which is currently being updated.

Franchise Fees. Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (9.05% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E is the single largest generator of franchise fees and accounts for approximately 35% of the total franchise revenues. SDG&E collects the franchise fee from Chula Vista customers based on their usage of natural gas. Due to the volatility of the price of natural gas and fluctuation in usage, this component is difficult to project. Trash franchise fees and cable fees are more predictable due to the fixed rates charged and the monthly and quarterly receipt of the revenues respectively.

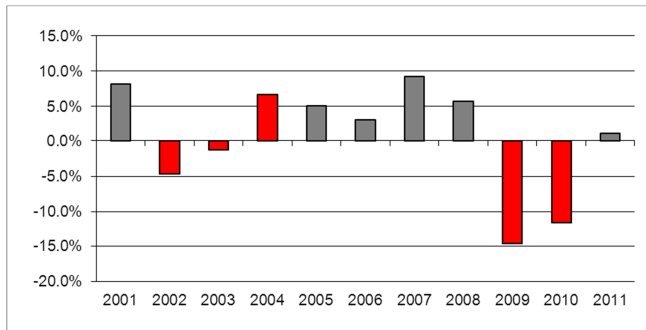
The chart reflects the drop off in Franchise Fee revenues due in part to lower natural gas prices and the loss of revenue from the closure of the South Bay Power Plant.



*Fiscal Year 11/12 is projected

Franchise Fee revenue projections for the fiscal year indicate that no change from budget is required at this time.

Transient Occupancy Tax (TOT). The City receives 10 percent of hotel and motel room rates for stays less than 30 days. The current year budget contemplated a slight increase from the prior fiscal year revenues collected.



Above is a chart showing the percentage change in TOT revenues compared to prior years. TOT revenue projections for the fiscal year indicate that no change from budget is required at this time.

Utility Users Tax (UUT). The City adopted its UUT in 1970. The City imposes a UUT on the use of telecommunications at the rate of 5% of gross receipts, which represents 63% of the total UUT revenues received. 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. Total projected revenues are anticipated to come in at budget.

Expenditures

Department	Amended Budget	First Quarter Actual	% Expended
City Council	\$ 1,267	\$ 295	23.3%
Boards/Commissions	40	1	1.8%
City Clerk	1,408	153	10.9%
City Attorney	2,255	386	17.1%
Administration	1,732	355	20.5%
Information Technology	2,869	804	28.0%
Human Resources	2,084	474	22.7%
Finance	3,193	695	21.8%
Non-Departmental	11,811	3,981	33.7%
Animal Care Facility	2,137	474	22.2%
Planning & Building	2,738	647	23.6%
Police	41,907	9,401	22.4%
Fire	21,686	5,240	24.2%
Public Works	23,454	4,899	20.9%
Recreation	2,872	727	25.3%
Library	3,423	698	20.4%
Totals	\$ 124,876	\$ 29,230	23.4%

The General Fund's Amended Budget reflects the Council adopted budget of \$124.6 million and all mid-year appropriations (\$317,453) approved by City Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 23.4 percent of the General Fund budget after 25 percent of the fiscal year has elapsed.

The following table shows the General Fund departments' expenditure budgets and the projected expenditures for the fiscal year. The updated department projections anticipate going over budget by approximately \$0.5 million.

Department	Amended Budget	Projected 6/30/12	Delta
City Council	\$ 1,267	\$ 1,267	\$ -
Boards/Commissions	40	40	\$ -
City Clerk	1,408	1,408	\$ -
City Attorney	2,255	2,140	\$ (115)
Administration	1,732	1,690	\$ (42)
Information Technology	2,869	2,835	\$ (34)
Human Resources	2,084	2,084	\$ -
Finance	3,193	3,184	\$ (9)
Non-Departmental	11,811	11,811	\$ -
Animal Care Facility	2,137	2,137	\$ -
Planning & Building	2,738	2,738	\$ -
Police	41,907	41,907	\$ -
Fire	21,686	22,713	\$ 1,027
Public Works	23,454	23,268	\$ (186)
Recreation	2,872	2,872	\$ -
Library	3,423	3,282	\$ (141)
Totals	\$ 124,876	\$ 125,376	\$ 500

Mid-Year Budget Amendments

Mid-year appropriations for the first quarter totaled \$317,453 with offsetting revenues of \$317,453 for no net impact to the General Fund.

Budget Amendments	Revenue	Expenditure	Net Impact
Evidence Control Asst and 3 Latent Fingerprint Examiners	\$ 165,000	\$ 165,000	\$ -
Goodrich donation for Rohr Park Trash Bins	\$ 12,000	\$ 12,000	\$ -
State E-911 reimbursement for CAD Interface	\$ 120,453	\$ 120,453	\$ -
County Grant for Centennial History Walk	\$ 20,000	\$ 20,000	\$ -
Total of 1st Quarter Budget Amendments	317,453	317,453	0
Total General Fund Budget Amendments	\$317,453	\$317,453	\$0

There were four budget amendments during the quarter. Details for the amendments follow:

- The Police department added an Evidence Control Assistant and three hourly Latent Fingerprint Examiners from a one-time amount received from the County of San Diego of \$165,000.
- Goodrich Aerostructures donated \$12,000 to the City for trash bins at Rohr Park
- State of CA E-911 is reimbursing the City for the cost of CAD system interface upgrades to the Police dispatch system.
- The County of San Diego provided a \$20,000 grant to assist in the City's Centennial Celebration.

Budget Transfers

There was one administrative budget transfer during the first quarter.

Dept	From	To	Description	Amount
Non-Dept	S&S	Personnel	Transfer for hourly wages	15,000
			Total 1st Quarter Budget Transfers	\$15,000