



OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through December 31, 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

The National Forecast¹ - In his December 2011 report, UCLA Anderson Forecast Senior Economist David Shulman notes that despite a modestly growing GDP, the nation's labor market remains mired in a long slump. And while the forecast calls for job growth on the order of 150,000 per month, total payroll employment will still be three million jobs below the 2007 peak and real personal income is still below the level reached in 2008.

That said, Shulman points out that recent economic data has improved – taking the threat of a double-dip recession off the table. Still, the forecast calls for real GDP growth at below trend rate for the next five quarters.

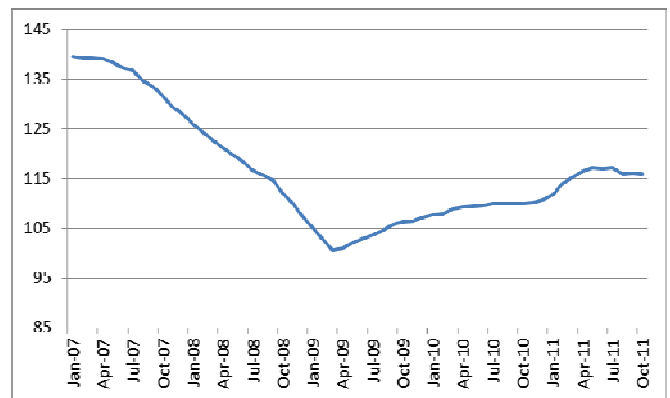
The California Forecast² - In the California report, Senior Economist Jerry Nickelsburg takes note of some of the positive signs in the recent data being reported regarding the state's economy. "... the September employment numbers, released in late October, turned out to be a pleasant surprise,"

The California forecast is similar to that of September. Employment growth of 1.4% and 2.1% is expected in 2012 and 2013 respectively. Payrolls will grow less rapidly at 1.4%, 1.2% and 2.0% for the last two forecast years. Real personal income growth is forecast to be 3.9% in 2011, followed by 2.6% and 2.1% in 2012 and 2013 respectively. The unemployment rate will hover around 11.6% through 2012.

The San Diego Forecast³ - The USD Burnham-Moores Center for Real Estate's Index of Leading Economic Indicators for San Diego County fell 0.2 percent in October. For the fourth straight month, half of the components were up and half were down. Sharp decreases in consumer confidence and residential units authorized by building permits outweighed a strong increase in the outlook for the national economy and a moderate gain in help wanted advertising to push the USD Index to a loss. Initial claims for unemployment insurance (positive) and local stock prices (negative) were virtually unchanged and offset each other.

October's decline pushed the string of alternating declines and advances in the USD Index to six straight months. With no turning point being signaled, the outlook for the local economy remains unchanged from what was previously reported: positive but weak growth through at least the first half of 2012. The chart below reflects the San Diego Index of Leading Economic Indicators from January 2007 to October 2011.

San Diego Index of Leading Economic Indicators



¹Source: UCLA Anderson Forecast, December 2011

²Source: UCLA Anderson Forecast, December 2011

³Source: University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, November 2011; retrieved from URL: <http://home.sandiego.edu/~agin/usdlei/index.html>

GENERAL FUND SUMMARY

General Fund Reserves - The General Fund Reserve policy was established to ensure that the City's finances are managed in a manner which will:

1. Continue to provide for the delivery of quality services
2. Maintain and enhance service delivery as the community grows in accordance with the General Plan
3. Minimize or eliminate the need to raise taxes and fees because of temporary revenue shortfalls
4. Establish the reserves necessary to meet known and unknown future obligations and ability to respond to unexpected opportunities.

In November 2009, the City Council approved a resolution updating the City's General Fund Reserve Policy. As part of the update, the policy set a new long-term goal for a higher level; increasing the policy for reserve level from 8% to 15%. The City started the current fiscal year with an available reserve of 9.5%.

The final audited numbers for fiscal year 2010/11 were presented to Council in January 2012. The following table has been updated to reflect the audited General Fund reserves as of July 1, 2011.

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2011 (audited)	\$11.9	\$11.9
Revenues & Transfers In	125.4	124.7
Expenditures & Transfers Out	(125.4)	(125.4)
Projected Surplus/Deficit	\$0.0	(\$0.3)
Projected Fund Balance – June 30, 2012	\$11.9	\$11.6
Percentage of Operating Budget	9.5%	9.3%

The second quarter financial projections indicate that there continue to be some challenges in the General Fund. There has been some improvement in reducing the projected deficit in the current year; the First Quarter Financial Report reflected a projected deficit of approximately \$900,000. No budgetary adjustments are recommended at this time, staff is currently reviewing expenditures to identify potential savings to assist in mitigating impacts to the General Fund reserves by year end. Staff will also continue to monitor revenue trends and make adjustments as necessary.

Based on activity through the end of the second quarter, General Fund revenues are tracking below budget expectations by approximately \$705,000, which represents a projected shortfall of less than 1%. Variances in the City's major revenue sources are discussed in further detail in the revenue section of this report. Program revenues continue to be challenging as there were some unanticipated revenue shortfalls in parking citations, code enforcement violations, and negligent vehicle impound processing fees. Some positive trends in program revenue include the reimbursement revenue from AMR based on contract changes approved earlier this year and better than expected revenues from Housing Permits and Building Permits.

Based on activity through the end of the second quarter, General Fund expenditures are tracking below budget by approximately \$413,000 which represents a budget savings of less than 1%. The projections reflect the Fire and Police departments exceeding their allocated budget and smaller projected overages in Animal Care Facility and Recreation – these overages are offset by savings in the other departments. Most of the savings are reflected in the City Clerk and Non Departmental budgets and related to savings for election costs and unemployment insurance respectively. Departments are continuing to work to identify and implement expenditure saving measures to help mitigate the impact to the General Fund.

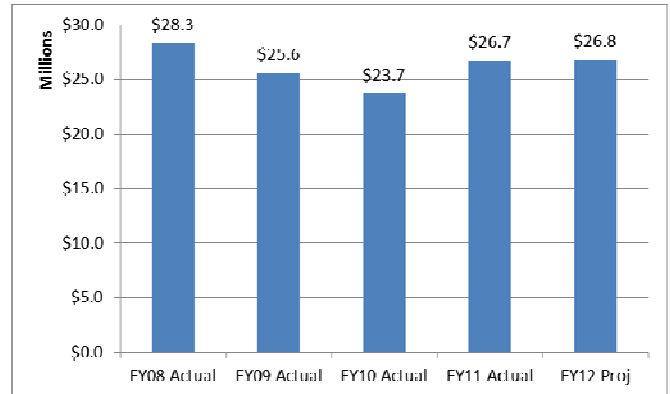
Revenues

Reflected in the following table are discretionary and departmental programmatic revenues. The projections indicate both discretionary and programmatic revenues are trending down when compared to budget. Updated sales tax figures and other revenues may help to mitigate some of the projected shortfalls. Staff will continue to monitor revenue trends and make adjustments as necessary.

General Fund Revenues

Category	Budget	Projected	+/-
Property Taxes	\$ 25,230,494	\$ 24,836,185	\$ (394,309)
Sales Tax	\$ 19,837,472	\$ 20,094,856	\$ 257,384
Motor Vehicle License Fees	\$ 17,201,233	\$ 16,287,965	\$ (913,268)
Other Revenues	\$ 14,144,932	\$ 14,309,828	\$ 164,896
Transfers From Other Funds	\$ 12,472,414	\$ 12,415,639	\$ (56,775)
Franchise Fees	\$ 7,533,386	\$ 7,793,000	\$ 259,614
Charges for Services	\$ 7,004,717	\$ 7,592,008	\$ 587,291
Sales Tax in lieu	\$ 6,563,322	\$ 6,701,827	\$ 138,505
Utility Users Taxes	\$ 3,240,633	\$ 3,240,633	\$ -
Other Agency Revenue	\$ 2,699,027	\$ 2,724,225	\$ 25,198
Use of Money and Property	\$ 2,285,498	\$ 2,187,812	\$ (97,686)
Fines, Forfeitures & Penalties	\$ 2,199,885	\$ 1,361,660	\$ (838,225)
Transient Occupancy Taxes	\$ 2,086,377	\$ 2,108,878	\$ 22,501
Business License Tax	\$ 1,213,000	\$ 1,155,400	\$ (57,600)
Real Property Transfer Tax	\$ 849,816	\$ 777,016	\$ (72,800)
Licenses and Permits	\$ 825,630	\$ 1,096,186	\$ 270,556
Total Revenue	\$ 125,387,836	\$ 124,683,118	\$ (704,718)

Sales Tax



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

Sales Tax (Sales Tax and Sales Tax in lieu) - Sales tax is projected to be the City's largest revenue source, representing 21.1 percent of General Fund revenues in the fiscal year 2011/12 adopted budget.

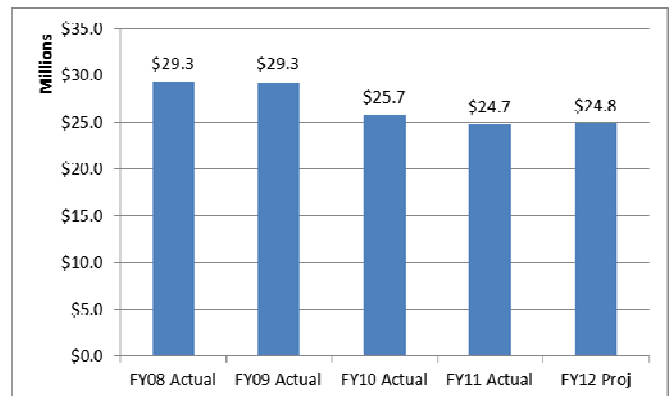
City staff has received sales tax data from the City's sales tax consultant, HdL Companies, for the third quarter of calendar year 2011. They report that the change in sales tax receipts between third quarter calendar year 2011 and third quarter calendar year 2010 increased by 8.6 percent Statewide, by 7.0 percent in San Diego County and 4.1 percent in Chula Vista.

Sales tax projections for the current fiscal year indicate that sales tax is tracking close to budget with a slight positive trend. Based on the most recent report received from the HdL Companies, the City is expected to realize an additional \$395,900 in sales tax when compared to budget. This is an increase of less than 1% for the year.

The following chart represents actual sales tax collections since fiscal year 2007/08. Fiscal year 2011/12 is projected and does not reflect actual collections.

Property tax projections indicate that these revenues are trending down when compared to budget. This shortfall is due to assessed values remaining relatively flat from prior year. A projected shortfall of \$394,300 is projected for this revenue category, a shortfall of approximately - 1.6%. The following chart represents actual property tax collections since fiscal year 2007/08. Fiscal year 2011/12 is projected and does not reflect actual collections.

Property Tax



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 4 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.

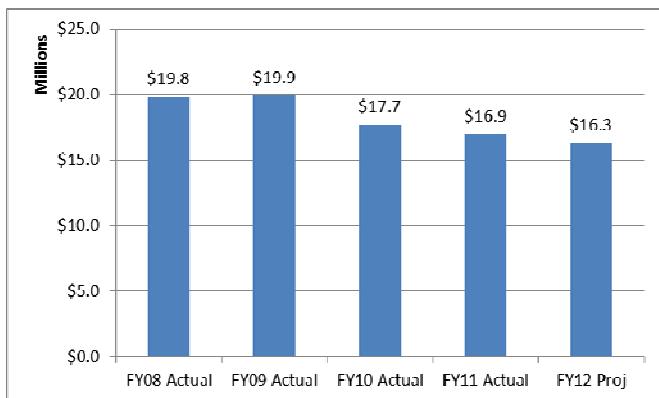
Statewide, SB89 takes \$130 million of city general revenue and shifts it to save state law enforcement grant programs. Less than \$100 million of these police grant funds will go back to cities.

The City of Chula Vista is estimated to lose approximately \$687,029 due to the State take away. This estimated loss will be offset by one-time VLF back-payments received from the State in the current fiscal year.

In addition to the shortfall discussed above, there is a shortfall of approximately \$226,000 in the State Motor Vehicle License in lieu revenue due to assessed values remaining relatively flat from prior year.

The following chart reflects actual VLF revenue since fiscal year 2007/08. Fiscal year 2011/12 is projected and does not reflect actual collections.

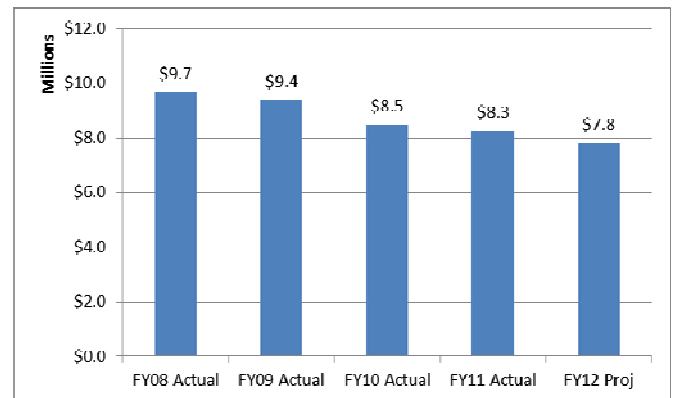
Motor Vehicle License Fees



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.

Current projections for Franchise Fee revenues indicate that these revenues are trending to exceed budget by approximately \$259,600; an increase of approximately 3.3% when compared to budget. The following chart reflects actual Franchise Fee revenue since fiscal year 2007/08. Fiscal year 2011/12 is projected and does not reflect actual collections. 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.

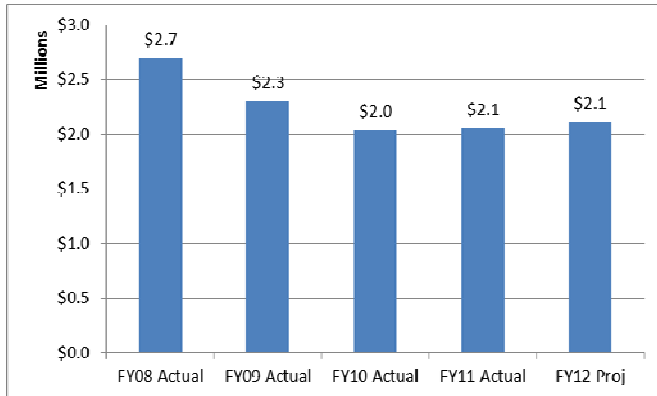
Franchise Fees



Transient Occupancy Tax (TOT) - The City receives 10 percent of hotel and motel room rates for stays less than 30 days. Current projections for TOT revenues indicate that no change from budget is required at this time.

The following chart reflects actual TOT revenue since fiscal year 2007/08. Fiscal year 2011/12 is projected and does not reflect actual collections.

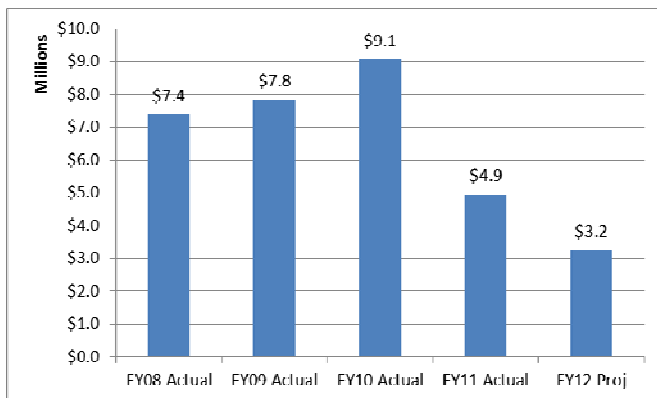
Transient Occupancy Tax (TOT)



Utility Users Tax (UUT) - 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.

Current projections for UUT revenues indicate these revenues are tracking on budget. The following chart reflects actual UUT revenue since fiscal year 2007/08. Fiscal year 2011/12 is projected and does not reflect actual collections.

Utility Users Tax (UUT)



Expenditures

The General Fund's Amended Budget reflects the Council adopted budget of \$124.6 million and mid-year appropriations of \$0.8 million approved by City Council. The following table reflects the General Fund amended budget and actual expenditures by department as of December 31, 2011. In total, Departments have expended 45 percent of the General Fund budget after 50 percent of the fiscal year has elapsed.

General Fund Expenditures as of 12/31/2011

Department	Budget	Actual 12/31	% Exp
City Council	\$ 1,286,619	\$ 640,770	50%
Boards and Commissions	\$ 40,076	\$ 3,364	8%
City Clerk	\$ 1,407,780	\$ 311,401	22%
City Attorney	\$ 2,255,035	\$ 840,480	37%
Administration	\$ 1,698,164	\$ 781,791	46%
Information Technology Svcs	\$ 2,869,481	\$ 1,442,060	50%
Human Resources	\$ 2,108,634	\$ 963,040	46%
Finance	\$ 3,193,464	\$ 1,485,041	47%
Non-Departmental	\$ 11,810,892	\$ 4,409,766	37%
Animal Care Facility	\$ 2,137,321	\$ 1,036,086	48%
Development Services (GF)	\$ 2,737,684	\$ 1,287,791	47%
Police	\$ 41,907,078	\$ 19,485,451	46%
Fire	\$ 21,686,275	\$ 10,465,391	48%
Public Works	\$ 23,514,322	\$ 10,723,524	46%
Recreation	\$ 3,312,410	\$ 1,518,003	46%
Library	\$ 3,422,601	\$ 1,538,457	45%
Expenditures thru 12/31	\$ 125,387,836	\$ 56,932,416	45%

The following table reflects the projected June 30, 2012 expenditures for the General Fund by Department.

General Fund Projections for 06/30/2012

Department	Budget	Projected	+/-
City Council	\$ 1,286,619	\$ 1,286,619	\$ -
Boards & Commissions	\$ 40,076	\$ 25,076	\$ (15,000)
City Clerk	\$ 1,407,780	\$ 959,524	\$ (448,256)
City Attorney	\$ 2,255,035	\$ 2,174,241	\$ (80,794)
Administration	\$ 1,698,164	\$ 1,673,002	\$ (25,162)
Information Tech Svcs	\$ 2,869,481	\$ 2,848,825	\$ (20,656)
Human Resources	\$ 2,108,634	\$ 2,079,691	\$ (28,943)
Finance	\$ 3,193,464	\$ 3,137,461	\$ (56,003)
Non-Departmental	\$ 11,810,892	\$ 11,414,693	\$ (396,199)
Animal Care Facility	\$ 2,137,321	\$ 2,144,234	\$ 6,913
Dev Services (GF)	\$ 2,737,684	\$ 2,737,684	\$ -
Police	\$ 41,907,078	\$ 42,037,587	\$ 130,509
Fire	\$ 21,686,275	\$ 22,259,846	\$ 573,571
Public Works	\$ 23,514,322	\$ 23,467,146	\$ (47,176)
Recreation	\$ 3,312,410	\$ 3,317,974	\$ 5,564
Library	\$ 3,422,601	\$ 3,411,047	\$ (11,554)
Total Expenditures	\$ 125,387,836	\$ 124,974,650	\$ (413,186)

Year-end projections indicate that based on activity through the end of the second quarter, General Fund expenditures are tracking below budget by approximately \$413,000, which represents a budget savings of less than 1%.

The major projected expenditure variances are reflected in the following departments:

- City Clerk – the projections included in the Second Quarter Financial Report reflect net savings of approximately \$448,000 in the City Clerk budget. This largely reflects the projected savings from the Elections budget. The projected expenditures reflect the cost of the June election and one ballot measure.
- Non-Departmental – the projections included in the Second Quarter Financial Report reflect net savings of approximately \$378,000 in the Non-Departmental budget. Included in these savings are lower than expected unemployment insurance costs, reduced transfers out based on permit activity to the Development Services Fund, offset by the addition of the Police Operational review estimated at \$75,000.
- Police – the projections included in the Second Quarter Financial Report reflect that the Police Department will exceed their budget by approximately \$130,500, which is largely due to a projected overage in Personnel Services. The FY12 budget included approximately \$335,000 in budgeted salary savings. Based on the need to keep Peace Officer positions filled the department cannot meet these salary savings, which is reflected in the projected overage.
- Fire – the projections included in the Second Quarter Financial Report also reflect that the Fire Department will exceed their budget by approximately \$573,600, which is largely due to a projected overage in Personnel Services. The projection for Constant Minimum Staffing in the Fire Department has been lowered from what was reported in the first quarter. Personnel costs due to injury leave and other personnel issues caused an increased use of Constant Minimum Staffing overtime. While these issues have been reduced since the first quarter report, the department is still projected to go over budget. With the unanticipated AMR revenue and better than expected fire inspection revenue, the Department is projected to stay within its budgeted net cost.

Departments are continuing to work identify and implement expenditure saving measures to help mitigate the impact to the General Fund.

Mid-Year Budget Amendments

Mid-year appropriations approved through the first half of the fiscal year totaled \$808,885 with offsetting revenues resulting in no net impact to the General Fund.

Reference	Revenue	Expenditures	Net Impact
+1 Evidence Control Assistant & hourly	\$ 165,000	\$ 165,000	\$ -
Goodrich Donation - Rohr park trash bins	\$ 12,000	\$ 12,000	\$ -
State E-911 reimbursement for CAD interface	\$ 120,453	\$ 120,453	\$ -
Budget clean up item - various	\$ 101,402	\$ 101,402	\$ -
County Grant for Centennial History Walk	\$ 20,000	\$ 20,000	\$ -
Appropriations approved in Second Quarter:			
Misc Recreation budget changes	\$ 390,030	\$ 390,030	\$ -
Council Appropriations	\$ 808,885	\$ 808,885	\$ -

The Council approved the following budget amendments during the second quarter:

- Recreation – approved an appropriation of \$390,030 for additional recreation classes and programs to be offset by grants, donations, and other unanticipated revenues.

Budget Transfers

The following table reflects the administrative budget transfers that occurred during the second quarter.

Description	Dept	Amount	From/To
Adjustment for travel/conferences/ and meetings	City Council	\$ 3,000	Personnel Services to Supplies & Services
Realign budget and adjust wage related objects	City Council	\$ 5,416	Supplies & Services to Personnel Services
Transfer to account for copier costs	Administration	\$ 4,577	Personnel Services to Supplies & Services
Transfer for purchase of computer equipment/software	Non-Dept	\$ 13,840	Capital to Supplies & Services