



OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through March 31, 2010 and projecting out to June 30, 2010. 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

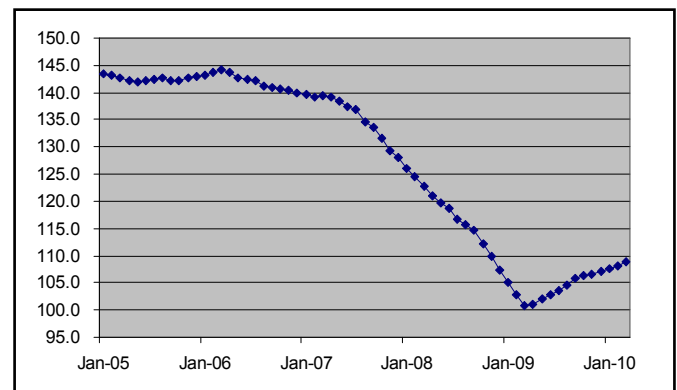
In its first quarterly report of 2010, the UCLA Anderson Forecast explores the duality of a national economy, where GDP is growing while job creation remains scarce and is expected to remain scarce through 2012. The Forecast suggests that Washington's economic stimulus packages may have unintentionally caused the economic schizophrenia. Tax cuts and spending programs, coupled with a non-sustainable zero interest policy spur growth, but businesses do not make long-term hiring decisions based on temporary government policies. Nevertheless, the Forecast indicates that the economy is now on a growth path and employment will soon be increasing, albeit modestly. This slow growth outlook reflects the lagging effects of the implosion on consumer balance sheets and, according to the Forecast, is a result of the economy in transition from being an import-oriented/low-saving rate one to a more export and higher-savings oriented one. Fueling this transition is the administration's "weak dollar policy" which encourages exports and discourages the consumption of imports and the combined effect will cause real consumer spending to grow at a modest 2% rate- far below the historical 3-3.5% rate.

In California, the UCLA Anderson Forecast notes that despite the recession having officially ended, California's unemployment rate continues to rise, and local governments continue to shed jobs. The outlook for the balance of 2010 is for little or no growth in the state, with the economy picking up speed slightly by the beginning of next year. More normal growth rates for California should be in place by the middle of 2011. The keys to California's recovery are a growing demand for manufactured and agricultural goods from outside the state, the recovery of U.S. consumption, which increased the demand for Asian imports and for products from California's factories, increased public works construction and increased investment in business equipment and software. The Forecast calls

for employment in 2010 to climb but not to exceed levels of 2009. Once employment growth returns in 2011, employment will begin to grow faster than the labor force at a 2.3% rate and the unemployment rate will begin to fall.¹

The University of San Diego's Index of Leading Economic Indicators for San Diego County rose 1.0 percent in March. Leading the way to the upside were strong moves in local stock prices and the outlook for the national economy. Building permits, initial claims for unemployment insurance, and help wanted advertising were also positive, but to a lesser extent. The only down component was local consumer confidence, which fell slightly. With March's advance, the USD Index has now been up for 12 months in a row.

San Diego Index of Leading Economic Indicators



The outlook for the local economy remains unchanged from recent months: If the local economy did not bottom out at the end of 2009, it likely did in the first part of 2010. As was mentioned in previous reports, employment is the indicator that comes out most regularly at the local level, and employment tends to be a lagging indicator in recent recessions and recoveries. March employment numbers show a gain of 5,000 jobs compared to February, which was the best monthly gain in local employment since February 2008. The unemployment rate still edged up for the month because more workers returned to the workforce in search of employment, which itself is a positive development. It is a sign that the unemployed are a little more optimistic

¹ UCLA Anderson Forecast Press Release March 24, 2010.

about their prospects and not so discouraged as to give up looking for work altogether².

GENERAL FUND SUMMARY

City Council Policy No 220-03 recommends the City maintain at least an 8 percent reserve level. As of June 30, 2009, the General Fund reserve level was at 6.7 percent (audited).

General Fund Reserve	Amended Budget	Projected (millions)
Reserves - July 1, 2009	\$ 9.3	\$ 9.3
Revenues & Transfers In	133.8	129.6
Expenditures & Transfers Out	134.0	130.3
Midyear Appropriation - Contracting Initiative	-0.1	
Projected Deficit	\$ (0.1)	-0.7
Mitigating Actions		
RDA Loan Repayment		0.7
Subtotal		0.0
Projected Fund Balance - June 30, 2010	\$ 9.2	\$ 9.3
Percentage of Operating Budget	6.6%	6.7%

On November 5, 2009, the City Council approved a revised General Fund operating reserve policy setting a long-term goal of building the reserves to 15%. In addition, the Council approved the establishment of two additional reserves, the Economic Contingency Reserve and Catastrophic Event Reserves at 5% and 3% respectively. The additional reserve categories were established to provide for greater distinction, increased security and accountability in the use of reserves.

Based on the overall projected revenues and expenditures the City projects ending the current fiscal year with a balanced budget and with no impact to reserves. Although there are signs of moderate economic recovery, as discussed in the economic overview section, the City continues to experience downward adjustments to its major revenues primarily due to the continued impacts of the economic downturn in the housing and retail markets.

Total expenditures are projected at \$130.3 million offset by projected revenues of \$129.6 million and an increased loan repayment from the Redevelopment Agency to the General Fund of \$750,000. The projected expenditures take into account the City Managers hiring/promotional freeze and administrative freeze on all non-essential services. The City projects that these actions will avoid impacts to reserves and

continue to maintain a balanced budget for the current fiscal year based on the third quarter analysis.

Revenues

Reflected in the table are discretionary and departmental programmatic revenues. Projections for discretionary revenues remain the same as projected in the Second Quarter report. Projections for Departmental programmatic revenues have been adjusted upwards to account for improvements in these revenues.

Revenues	FY 2009/10		Delta
	Budget	Projected	
Property Tax	25,299	25,311	12
Sales Tax	18,607	17,589	(1,018)
Sales Tax In Lieu (1/4%)	6,838	5,655	(1,183)
Motor Vehicle License Fee	18,287	17,717	(570)
Franchise Fees	10,033	8,447	(1,586)
Utility Users Tax	8,169	9,401	1,232
Transient Occupancy Tax	2,603	1,941	(662)
Business License Tax	1,190	1,190	0
Real Property Transfer Tax	841	841	0
Licenses and Permits	880	955	75
Fine, Forfeitures & Penalties	2,380	2,188	(192)
Use of Money and Property	1,813	1,846	33
Other Agency Revenue	2,791	2,996	205
Charges for Services	7,656	6,896	(760)
Other Revenues	12,034	12,470	436
Transfers From Other Funds	14,340	14,126	(214)
Total	\$ 133,761	\$ 129,569	\$ (4,192)

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

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

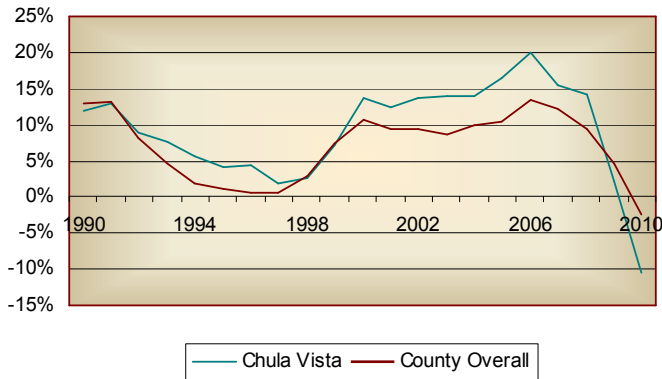
The fiscal year 2009/10 Property Tax budget anticipated an 8.4 percent decrease. However since adoption of the budget the County Assessor has advised the City that there has been a further decline of 2 percent in assessed values from the decline initially reported to the City resulting in a downward adjustment of \$600,000 in the 1st quarter.

Based on the actual property tax revenues collected year to date, continued decline in supplemental taxes and refunds processed by the County, a downward adjustment of \$1.3 million was made in the second quarter. These additional adjustments were provided by the County of San Diego Auditor & Controller in a January 2010 report to the City. It is anticipated that no

² University of San Diego School of Business Administration, USD Index of Leading Economic Indicators, April 28, 2010.

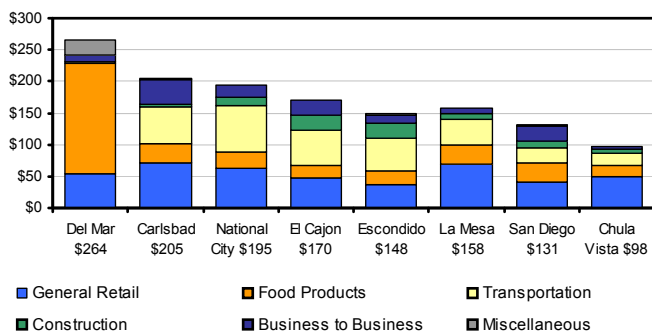
further adjustments to the projections are required for the remainder of the fiscal year.

The chart below compares the City's assessed values with the assessed values of all San Diego County.



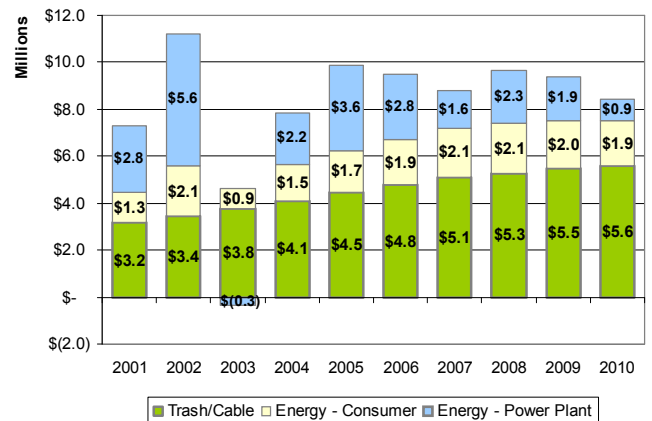
Sales Tax. Sales tax is the City's second largest revenue source, representing 19.2 percent of fiscal year 2009/10 budgeted revenues.

City staff met with the City's sales tax consultant, MuniServices, to review the most recent sales tax revenues. They report that the change in sales tax receipts between fourth quarter calendar year 2009 and the fourth quarter calendar year 2008 decreased by 6.0 percent Statewide, by 5.6 percent in Southern California and 2.6 percent in Chula Vista. The results of the 4th quarter report suggest that the holiday sales period is responsible for improving the double digit declines experienced by the City since the 4th quarter of calendar year 2008. In light of this and taking in to account adjustments to projections already taken in the first and second quarters it is anticipated that no further adjustments are required to the projections for the remainder of the fiscal year.



Motor Vehicle License Fee (VLF). With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. For FY 2005/06 and beyond, the majority of VLF revenues for each city will grow essentially in proportion to the growth in the change in gross assessed valuation. Due to the new formula that relies on assessed valuations, the continued decline in automotive sales, and the County Assessors additional adjustment of -2 percent in assessed values, this revenue source was adjusted downward in the first quarter by approximately \$0.6 million. No further adjustments are anticipated for the remainder of the fiscal year.

Franchise Fees. Franchise fee revenues are generated from public utility sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (9.05% fee), and cable franchises (5% fee) conducting business within City limits. SDG&E is the single largest generator of franchise fees and accounts for approximately 35% of the total franchise revenues. SDG&E collects the franchise fee from Chula Vista customers and through a municipal surcharge imposed on the South Bay Power Plant based on their usage of natural gas. Due to the volatility of the price of natural gas and fluctuation in usage, this component is difficult to project. Trash franchise fees and cable fees are more predictable due to the fixed rates charged and the monthly and quarterly receipt of the revenues respectively. Revenue growth is projected based on population and inflation factors with the exception of the South Bay Power Plant, which is impacted by the cost of natural gas and the actual usage of the plant itself.



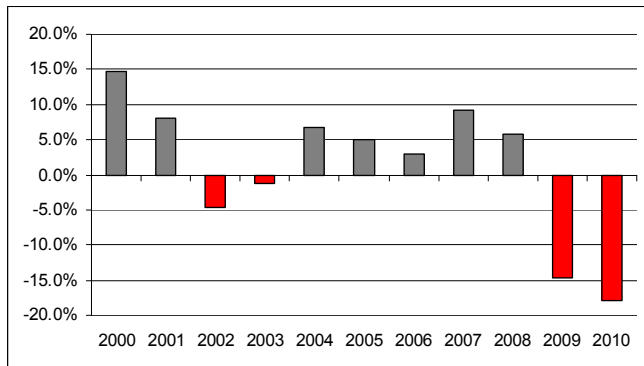
The Franchise Fee revenue projection was revised downward by \$1.6 million based on two factors. Based on the most recent information on the price of natural gas, the price per unit has dropped by 51.2 percent

(\$7.69 Sept 08 vs. \$3.75 Sept 09). In addition, the Public Utilities Commission recently ruled that only two of the power plant's four generators now have Reliability Must Run status which is also impacting projected revenues for the current fiscal year and on an on-going basis. It is anticipated that no further adjustments to the projections are required for the remainder of the fiscal year.

Transient Occupancy Tax (TOT). The first quarter report reflected a downward adjustment to TOT revenues based on actual revenues from the prior year. The downward trend reported in the second quarter report of 17.8% continues to trend in that direction. This is on top of the 14.6% decline experienced in the prior year.

Based on the Quarterly Travel Forecast prepared for the San Diego Convention and Visitors Bureau dated December 2009, "Average daily rates in San Diego fell more sharply than in some other areas early in the downturn improving San Diego's competitive position. The Average Daily Rate is expected to grow again next year as occupancy improves." Due to the decline in rates in San Diego and low occupancy rates local motel/hotels have reduced their daily rates in order to stay competitive. Accounting for the reduced rates (ranging from 10% to 40%), the weak economy, less travels to/from Mexico and less overflow from hotels in downtown San Diego, the City's TOT revenues are projected at approximately \$1.9 million which brings the TOT revenues back to fiscal year 2000 levels. Below is a chart showing the percentage change in TOT revenues compared to prior year. It is anticipated that no further adjustments to the projections are required for the remainder of the fiscal year.

TOT Revenues



Utility Users Tax (UUT). Revenues are budgeted at \$8.2 million for fiscal year 2009/10. This revenue is

projected to come in \$1.2 million higher as a result of new UUT vendor collections. No further adjustments are anticipated for the remainder of the fiscal year.

Expenditures

Department	Amended Budget	3rd Quarter Actual	% Expended
City Council	\$ 1,218	\$ 704	57.8%
Boards/Commissions	15	2	13.2%
City Clerk	1,166	538	46.2%
City Attorney	1,971	1,326	67.2%
Administration	1,727	1,141	66.0%
Information Technology	3,146	2,234	71.0%
Human Resources	3,823	2,795	73.1%
Finance	3,251	2,115	65.1%
Non-Departmental	8,736	7,358	84.2%
Animal Care Facility	2,404	1,409	58.6%
Planning & Building	4,108	2,627	64.0%
Police	44,052	30,874	70.1%
Fire	21,419	15,629	73.0%
Public Works	26,396	17,151	65.0%
Recreation	5,346	3,747	70.1%
Library	5,147	3,393	65.9%
Totals	\$ 133,925	\$ 93,044	69.5%

The General Fund's Amended Budget reflects the Council adopted budget of \$133.0 million and all mid-year appropriations (\$494,400) approved by City Council. Actual expenditures to date are reflected in the chart above. It indicates that Departments have expended 69.5 percent of the General Fund budget after

Department	Amended Budget	Projected 6/30/10	Delta
City Council	\$ 1,218	\$ 1,158	\$ 61
Boards/Commissions	15	15	-
City Clerk	1,166	1,134	31
City Attorney	1,971	1,867	104
Administration	1,727	1,595	132
Information Technology	3,146	2,952	194
Human Resources	3,823	3,702	121
Finance	3,251	3,058	193
Non-Departmental	8,736	8,058	678
Animal Care Facility	2,404	2,125	279
Planning & Building	4,108	4,047	60
Police	44,052	43,734	318
Fire	21,419	22,067	(648)
Public Works	26,396	24,783	1,613
Recreation	5,346	5,286	60
Library	5,147	4,740	407
Totals	\$ 133,925	\$ 130,320	\$ 3,605

75 percent of the fiscal year has elapsed.

The table above shows the General Fund departments expenditure budgets and the projected expenditures for

the fiscal year. The updated department projections anticipate savings of approximately \$3.6 million.

Mid-Year Budget Amendments

Mid-year appropriations through the third quarter totaled \$958,844 with offsetting revenues of \$795,193 for a net impact of \$163,651, which have been mitigated through savings in the General Fund. The following discusses new appropriations for the third quarter.

- The Police Department received a \$7,000 grant for participating in the Fugitive Task Force.
- The Nature Center appropriated donations collected to offset General Fund cost above the agreed-upon General Fund contribution.
- The appropriation of \$2.0 million of Prop 42 funds reflects the reimbursement of staff time related to street maintenance costs from Prop 42 to the General Fund. Prop 42 monies will be used to reimburse the General Fund for eligible fiscal year 2008-09 expenditures and fiscal year 2009-10 expenditures. Property Tax and Sales Tax budgets were reduced by the \$2.0 million appropriated for the Prop 42 in order to avoid overstating budgeted General Fund revenues.
- An appropriation of \$243,704 was requested for the Fire Department to account for reimbursements received for Strike Team overtime.
- The appropriation of \$59,740 from the General Fund to the Waste Management and Recycling Fund allowed for the transfer of grant revenue that was incorrectly posted to the General Fund in fiscal year 2008-09.

Budget Transfers

There were two administrative budget transfers during the third quarter that totaled \$21,571.

Department	From	To	Description	Amount
Fire Dept	Personnel	S&S	Adjustments to S&S Budget	7,314
City Council	Utilities	S&S	Adjustments to S&S Budget	154
City Council	Personnel	S&S	Communication Services	1,728
Total of 1st Quarter Budget Transfers				\$9,196
Public Works	Utilities	Utilities	Transfers for Phone Service	1,154
Public Works	Personnel	Personnel	Transfer for Hourly Wages	15,000
HR Dept	S&S	S&S	Recruitment Expense	1,000
HR Dept	S&S	S&S	Safety Training Funds	10,000
City Council	Personnel	S&S	Miscellaneous Supplies and Services	15,000
Total of 2nd Quarter Budget Transfers				\$42,154
Planning	Personnel	Capital	Transfers for Wireless Access Charges	9,578
Recreation	Personnel	Personnel	Bunker Rack for Ball Fields	11,993
Total of 3rd Quarter Budget Transfers				\$21,571

Development Services Fund

With the approval of the fiscal year 2008/2009 budget, the City Council authorized the creation of the Development Services Fund (DSF) comprised of staff from the Departments of Planning & Building, Public Works and Engineering that are responsible for the planning, permitting, plan review, and inspection of development applications. Since then Public Works was transferred back to the General Fund.

Division	Projected Revenues	Projected Expenditures	Projected Net Impact
P&B Administration		\$ 270,069	\$ (270,069)
Planning	1,609,739	2,026,159	(416,420)
Building	1,946,471	1,809,148	137,323
Engineering	1,259,518	1,487,802	(228,284)
DSF TOTAL	\$ 4,815,728	\$ 5,593,178	\$ (777,450)

Despite cuts made to the Development Services Fund over the past year, there is a projected deficit of approximately \$800,000 in the current fiscal year. The shortfall is a result of a reduction in the fully burdened hourly rate due to reductions in administrative staffing levels and reduction in billable hours to funded projects – combined these two changes result in a projected revenue shortfall of approximately \$800,000.

There are currently no anticipated actions to resolving this deficit prior to the close of the fiscal year and a loan will be needed to prevent the fund ending the year in a deficit. The loan amount will be determined at the time that the books are closed and upon completion of the annual financial statement audit.

Budget Amendments	Revenue	Expenditure	Net Impact
SD Police Foundation Grant	\$6,500	\$6,500	\$0
Contracting Initiative Ballot Measure	\$0	\$93,000	(\$93,000)
County of SD Registrar of Voters	\$0	\$21,000	(\$21,000)
Total of 1st Quarter Budget Amendments	\$6,500	\$120,500	(\$114,000)
Fugitive Task Force Vehicle	\$6,000	\$6,000	\$0
OCDETF Regional Operations Support	\$10,089	\$0	\$10,089
Nature Center Transition	\$163,400	\$163,400	\$0
Heritage Museum Grant	\$6,000	\$6,000	\$0
Nature Center Transition	\$198,500	\$198,500	\$0
Total of 2nd Quarter Budget Amendments	\$383,989	\$373,900	\$10,089
Fugitive Task Force Grant	\$7,000	\$7,000	\$0
Nature Center Transition	\$149,000	\$149,000	\$0
Reimbursement from Prop 42 Funds	\$2,000,000	\$2,000,000	\$0
Property and Sales Tax Reduction (Prop 42)	(\$2,000,000)	(\$2,000,000)	\$0
Fire Strike Team Reimbursement	\$243,704	\$243,704	\$0
Waste Mgmt/Recycling Budget Cleanup	\$0	\$59,740	(\$59,740)
State Grant for Nature Center	\$5,000	\$5,000	\$0
Total of 3rd Quarter Budget Amendments	\$404,704	\$464,444	(\$59,740)
Year-to-Date Budget Amendments	\$795,193	\$958,844	(\$163,651)