5-YEAR FINANCIAL FORECAST:

Fiscal Years 2015 - 2019

CITY OF
CHULA VISTA

October 2014

California

General Fund Five Year Financial Forecast
Fiscal Years 2015 to 2019

Table of Contents

Executive Summary

To follow is the Five Year Financial Forecast for fiscal years 2015 to 2019 for the General Fund. The City prepares five year forecasts in order to evaluate the City's fiscal condition and to guide policy and programmatic decisions. The development of a financial forecast as part of the budget development process is identified as a best practice by the Government Officers Finance Association (GFOA). GFOA recognizes a financial forecast as a "fiscal management tool that presents estimated information based on past, current, and projected financial conditions. This will help identify future revenue and expenditure trends that may have an immediate or long-term influence on government policies, strategic goals, or community services."

The City first prepared a five year financial forecast in March 2008 for fiscal years 2009 to 2013. It is staff's intent to update the forecast two times during the year – the Fall update will provide context for the development of the upcoming fiscal year's budget while the Spring update will provide context for the budget that is being proposed for adoption. This update is being issued now to provide a five year outlook in the development of the fiscal year 2015-16 budget.

The following table reflects the financial forecast for the General Fund for fiscal years 2015 to 2019.

Description	Projected FY 2015	Forecast FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019
Revenues:					
Major Discretionary Revenues	$ 96,543,000	$ 99,715,000	$ 102,810,000	$ 106,012,000	$ 109,348,000
Other Revenues	$ 40,135,000	$ 39,455,000	$ 39,660,000	$ 39,927,000	$ 40,378,000
Total Revenues	**$ 136,678,000**	**$ 139,170,000**	**$ 142,470,000**	**$ 145,939,000**	**$ 149,726,000**
Expenditures:					
Personnel Services	$ 108,412,000	$ 112,303,000	$ 116,560,000	$ 120,195,000	$ 123,440,000
Other Expenses	$ 28,188,000	$ 27,612,000	$ 28,214,000	$ 28,818,000	$ 29,591,000
Total Expenditures	**$ 136,600,000**	**$ 139,915,000**	**$ 144,774,000**	**$ 149,013,000**	**$ 153,031,000**
Subtotal Surplus/(Deficit)	**$ 78,000**	**$ (745,000)**	**$ (2,304,000)**	**$ (3,074,000)**	**$ (3,305,000)**

The Five Year Financial Forecast includes the following key assumptions over the forecast period:

- Sustained modest economic growth and no adverse economic down turns,
- Projected revenue growth in alignment with stable economic conditions,
- Status quo expenditure growth with no new major cost/program initiatives.

The City Council adopted a balanced budget for fiscal year 2014-15. Since the adoption of the budget several changes in revenues and expenditures have resulted in a small projected surplus for the current fiscal year. For fiscal years 2016 to 2019, the forecast reflects a deficit ranging from $0.7 million growing to $3.3 million in fiscal year 2019. No specific budget balancing recommendations are being proposed at this time. Budget balancing measures will be brought forward with the development of future budgets. Staff will continue to monitor revenue and expenditure trends and make adjustments in the forecast as needed.

The forecast presented in this document reflects staff's best estimate for revenues and expenditures based on current trends. The City hires a number of consultants who are subject matter experts to assist in trend analysis and forecasting –this information is also incorporated into the projections presented in this report.

It is important to note that while the City's financial position continues to improve it has not yet solidified as there are many competing priorities that are vying for limited resources. Included in these priorities are deferred building maintenance, vehicle replacement and major equipment replacement as funding was redirected from these areas during recession. During the forecast period the City will continue to focus on:

- Developing and updating financial policies that support improving the City's financial strength and help move the City towards financial resiliency.
- Continue to prioritize expenditures to focus on the highest priorities; during this time it will be difficult to add new programs and services without making tradeoffs.
- Continue economic development efforts to help generate new revenues and boost the City's economic base.

Summary of Assumptions

The following are some key assumptions applied in the preparation of the financial forecast.

Economic and Population Growth

- The national economy is projected to increase its performance slightly from previous years as the recovery continues to pick up its pace as the nation's Gross Domestic Product (GDP) growth will rebound from 2014's 2.1% to 3.1% and 3.4% in 2015 and 2016, respectively. Payroll job growth should average 230,000/month and by the end of 2016 the unemployment rate will drop to 5.3% at the national level.

- Inflation is projected to increase over the five-year forecast exceeding the 2% average that has been the benchmark in recent years as both the economy and unemployment improve. According to the UCLA Anderson Forecast, the Federal Reserve Board is also expected to end the Quantitative Easing Program and increase the Federal Funds Rate which is also projected to increase inflation. Inflationary pressure may be offset by decreasing oil and gas prices should these continue to fall or fail to regain previous price levels.

- The City's population should continue to grow at a faster pace than the overall County population based on the SANDAG Regional Growth Forecast. The forecast projects that the County's population will grow by 12.9% from 2008-2020 while the City's population is projected to grow by 16.1% over the same period of time. The forecast does not include revenues or expenditures related to new development.

- Millenia Project (Eastern Urban Center) and Bayfront Development – No additional revenues or operating expenses are assumed related to these projects. The City will continue its efforts to bring these projects to fruition; as the 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 emerges as the City's largest revenue source and is projected to keep pace and exceed the inflation rate throughout the forecast period. Projected increases in the sales of consumer goods accounts for the majority of the projected sales tax growth.

- Property tax revenues continue their recovery as real estate market conditions improve and assessed valuations also recover to pre-recession levels. It is assumed that the City will receive the 2% assessed value increases as stipulated by Proposition 13 throughout the forecast period. It projected that property tax revenues will not recover its position as the number one revenue source during the forecast period.

- Motor vehicle in lieu revenues are projected to mirror property revenues and increase at a commensurate rate over the forecast period reflecting improved assessed valuations and real estate market conditions.

- Utility Users Taxes (UUT) are projected to increase over the forecast period. The UUT revenue forecast is developed from an increased UUT revenue base reflecting the re-incorporation of the wireless telecom portion of the UUT from customers. The increased revenue base reflects the

City's settlement agreement that resolved a class action lawsuit challenging the City's collection of the wireless telecom portion of the UUT from customers.

- No state takeaways are assumed to affect the City's major revenue sources.

Major Expenditures

- Expenditure projections are based on current staffing levels, no additional personnel are assumed in the forecast with the exception of Police grant funded positions which will be absorbed by the General Fund as grant funding phases out.

- The forecast does not include funding for new programs or initiatives – the projections reflect the cost of maintaining current levels of service.

- Personnel projections reflect only currently negotiated wage increases with the City's bargaining groups. There are no wage increases assumed beyond the term of the Memorandums of Understanding with the respective bargaining groups - wages remain flat for the years where there is no MOU in place.

- Fiscal year 2014-15 reflects a higher than normal salary savings (to account for turnover and vacancies) in order to balance the General Fund. Starting in fiscal year 2015-16 salary savings are based on 1% of projected Salary/PERS/Medicare to reflect shorter vacancy periods.

- Retirement costs are based on the October 2013 Annual Valuation Report provided by CalPERS and reflect the contribution rates based on CalPERS meeting the 7.5% return on investment (discount rate). CalPERS has also provided an estimate for the impact of the mortality rate changes that will be incorporated into the contribution rates beginning in fiscal year 2016-17. The impact of the contribution as a result of the mortality rate change is listed separately on the forecast as the impact is still uncertain.

General Fund Revenues

This section provides an overview of General Fund revenues and further details assumptions used in the development of the Five Year Financial Forecast.

City General Fund revenues are projected to continue recovering from the recessionary impacts that resulted in significant decreases across all major revenues. Overall, City General Fund revenues are projected to grow by 9.7% over the forecast period increasing from $137.1 million in fiscal year 2014-15 to $150.4 million in fiscal year 2018-19. This forecast is based upon improved economic conditions allowing for the return of stable revenue growth as the City emerges from the recent recession at a steady, moderate pace.

Sales Tax revenues continue to represent the General Fund's single largest revenue source. Overall, Sales Tax revenues are projected to increase by 16.4% and grow from $29.2 to $33.9 million over the forecast period for an average growth rate of 3.1% a year. The forecast is based on projected improved economic conditions resulting in increased discretionary spending among City residents. Although the projected increase in sales taxes will benefit the City, it is important to note that sales tax is more susceptible to economic changes and therefore poses more of a risk to the City's revenue base than Property Taxes which are a considered a more stable revenue source.

Property Taxes, the City's second largest revenue source, are projected to grow yearly by 3.8% over the forecast period. This is due to a projected improved real estate market and projected growth in city-wide assessed values that are forecast to increase as stipulated by Proposition 13. Under Proposition 13, property value assessments are permitted rise by an annual 2% consumer price index (CPI) driven increase. Prior to the recent recession, the CPI driven increase in property assessments was taken as given by most taxing jurisdictions as most relied upon it as a revenue stabilizing factor during economic downturns. However, this increase was not fully granted during some of the recessionary years and was even rolled back due to a decrease in the CPI. The resumption of the 2% CPI driven increase to the City's property assessments over the forecast period is an important assumption in the Property Tax revenue projection as it represents a stable source of revenue growth for the City.

Motor Vehicle License Fee (VLF) revenues are the City's third largest revenue source; these revenues are projected to recover from the recessionary impacts that caused it to decline. VLF revenue growth is projected to align with forecasted Property Tax revenues as both are tied to changes in assessed property valuations. Both are expected to improve as a result of improved real estate market conditions.

The following table reflects the projected revenues for the General Fund for fiscal years 2015 to 2019.

Forecast of General Fund Revenues – Fiscal Years 2015 to 2019

Description	Projection FY 2015	Forecast FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019
Revenues:					
Property Taxes	$ 28,659,698	$ 29,499,414	$ 30,638,439	$ 31,822,205	$ 33,073,537
Sales Tax	$ 29,961,561	$ 30,560,792	$ 31,477,616	$ 32,421,944	$ 33,394,603
Franchise Fees	$ 10,188,250	$ 11,234,049	$ 11,383,047	$ 11,535,317	$ 11,690,933
Utility Users Taxes	$ 7,175,000	$ 7,246,750	$ 7,319,218	$ 7,392,410	$ 7,466,334
Transient Occupancy Taxes	$ 2,687,833	$ 2,768,468	$ 2,851,522	$ 2,937,068	$ 3,025,180
Motor Vehicle License Fees	$ 17,870,912	$ 18,405,951	$ 19,139,967	$ 19,903,300	$ 20,697,122
Subtotal Major Discretionary Revenues	$ 96,543,255	$ 99,715,424	$ 102,809,809	$ 106,012,244	$ 109,347,708
Development Revenue	$ 1,267,920	$ 1,271,406	$ 1,274,962	$ 1,278,590	$ 1,284,139
Licenses and Permits	$ 1,135,130	$ 1,157,823	$ 1,180,969	$ 1,204,578	$ 1,240,716
Fines, Forfeitures & Penalties	$ 1,110,800	$ 1,133,016	$ 1,155,676	$ 1,178,790	$ 1,214,154
Use of Money and Property	$ 2,439,246	$ 2,460,635	$ 2,482,238	$ 2,504,056	$ 2,579,178
Other Local Taxes	$ 2,178,299	$ 2,221,865	$ 2,266,302	$ 2,325,226	$ 2,394,983
Police Grants	$ 1,429,624	$ 1,372,520	$ 1,228,597	$ 1,126,416	$ 1,131,998
Other Agency Revenue	$ 2,104,484	$ 2,029,751	$ 2,050,933	$ 2,072,538	$ 2,106,331
Charges for Services	$ 6,555,929	$ 6,594,609	$ 6,600,443	$ 6,606,394	$ 6,679,197
Interfund Reimbursements	$ 10,297,404	$ 10,424,400	$ 10,553,246	$ 10,683,970	$ 10,799,775
Other Revenues - Miscellaneous	$ 883,643	$ 752,679	$ 757,191	$ 761,748	$ 762,699
Transfers From Other Funds	$ 10,732,359	$ 10,036,147	$ 10,109,742	$ 10,184,675	$ 10,184,675
Contingency Reserves	$ -	$ -	$ -	$ -	$ -
Subtotal Other Revenues	$ 40,134,838	$ 39,454,851	$ 39,660,300	$ 39,926,982	$ 40,377,845
Total Revenues	**$ 136,678,093**	**$ 139,170,275**	**$ 142,470,108**	**$ 145,939,226**	**$ 149,725,553**

The forecast assumptions for the major City revenue sources are summarized in the following table.

Forecast of Major General Fund Revenues: Percent Changes from Prior Year

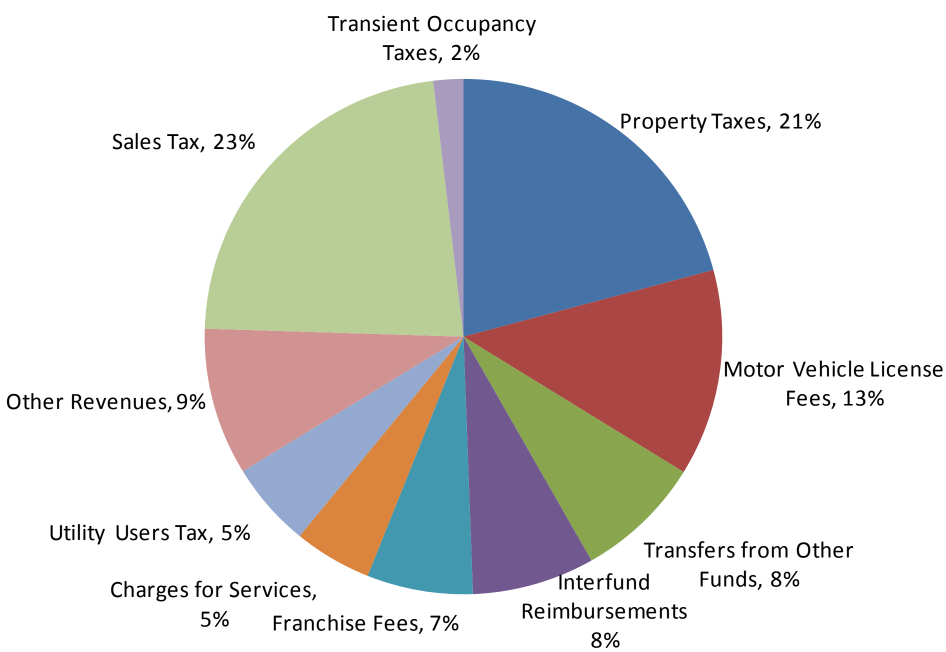
Revenue Category	5 Yr. Average FY 10-14	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Property Tax	1.3%	-1.5%	4.4%	2.9%	3.9%	3.9%	3.9%
Sales Tax	4.3%	1.9%	4.4%	2.0%	3.0%	3.0%	3.0%
Franchise Fees	0.9%	-4.6%	15.2%	10.3%	1.3%	1.3%	1.3%
Motor Vehicle in Lieu	-1.1%	3.2%	6.5%	3.0%	4.0%	4.0%	4.0%
Utility Users Taxes	10.7%	240.0%	-52.3%	1.0%	1.0%	1.0%	1.0%
Transient Occupancy Tax	5.1%	5.6%	3.0%	3.0%	3.0%	3.0%	3.0%

Notes:

1. FY2014 Property Tax revenues were lower due to a one-time payment of approximately $1.0 million received in the prior fiscal year resulting from the dissolution of the City's Redevelopment Agency.
2. The change reflected in the 5 year Average column for Motor Vehicle in Lieu revenues reflects declining assessed values during the recessionary period.
3. FY2014 Utility Users Taxes (UUT) reflect the City's settlement of a class action lawsuit challenging the City's collection of the wireless telecom portion of the UUT from customers. Previously collected but unrecognized utility users tax revenues were appropriated into the budget mid-year in fiscal year 2014 as one-time adjustment. Projected FY 15 UUT revenues reflect the re-incorporation of UUT revenues into the base budget.

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. The City's diversified revenue base helped it to soften the impact of the recent recession that affected almost every revenue category. It is imperative to the City's fiscal sustainability that it continues to focus on adding to the base by capturing revenues such at City's TOT (hotel tax) and sales taxes by attracting additional hotels and other commercial developments. The chart below reflects the General Fund Revenues for fiscal year 2014-15.

Fiscal Year 2014-15 General Fund Revenues



The following section will provide additional information about the City's major revenue sources.

Sales Taxes

Prior to fiscal year 2004-05, the City received 1% in sales and use tax revenue from 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 8.00% for the San Diego County region. The sales tax revenues are then allocated based on the following rates:

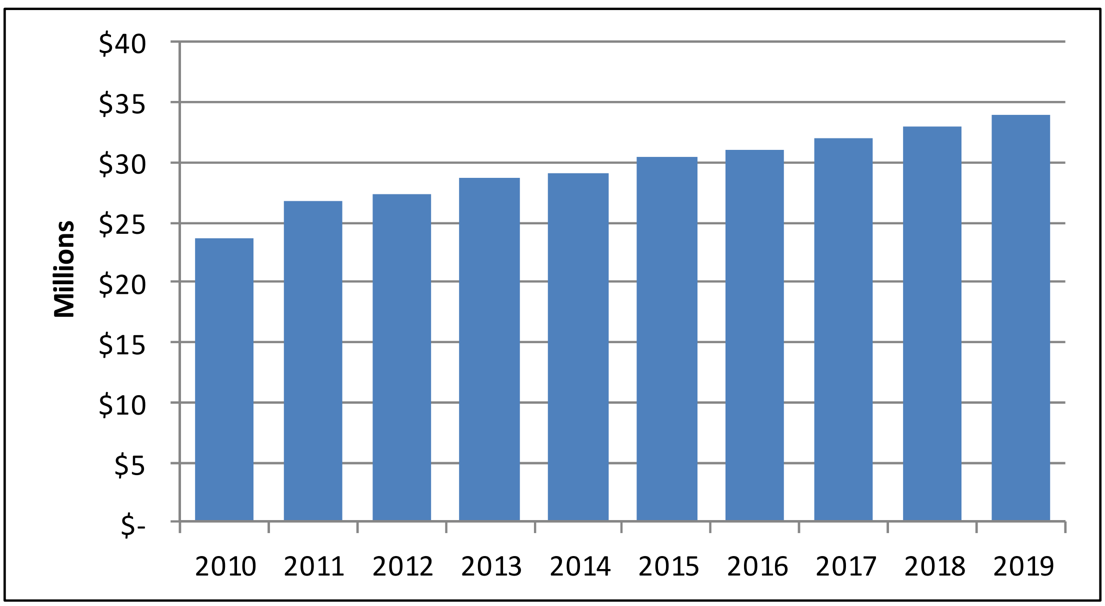
State General Fund (includes K-12/Community Colleges)	4.1875%
State Fiscal Recovery Fund (Triple Flip) (City Share)	0.2500%

Local Jurisdiction (City or County of place sale/use) (City Share)	0.7500%
Public Safety (Prop 172)	0.5000%
County Realignment (Mental Health/Welfare/Public Safety)	1.5625%
Countywide Transportation Fund	0.2500%
San Diego County Regional Transportation Commission (SDTC)	0.5000%
Total Sales Tax Rate – Chula Vista [1]	8.0000%

[1]*Total sales tax rates will vary by City due to local sales tax initiatives. For example, National City's sales tax rate is 9.00% due to 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 levels of unemployment, consumer confidence, per-capita income, and business investment. In addition, the proximity to the Mexican border and the number of transactions related to cross border shopping also makes the City's sales tax revenues particularly susceptible to volatility if a downturn in the Mexican economy were to occur.

Sales Tax Revenues
Fiscal Years 2010 to 2019



Note: Fiscal years 2010 to 2014 represent actuals, fiscal years 2015 to 2019 reflect projections.

Sales tax revenues have emerged as the City's largest revenue source as the City's revenue base continues to stabilize from the recession. Sales tax revenues are projected to increase by 2.0% in fiscal year 2015-16. Overall, sales tax revenues are projected to increase by 11.5% over the forecast period for an average growth rate of 3.1% a year. The projected increases in sales tax revenues are based on improved economic conditions and projected increases in the sales of consumer goods that comprise the largest component of the City's taxable sales.

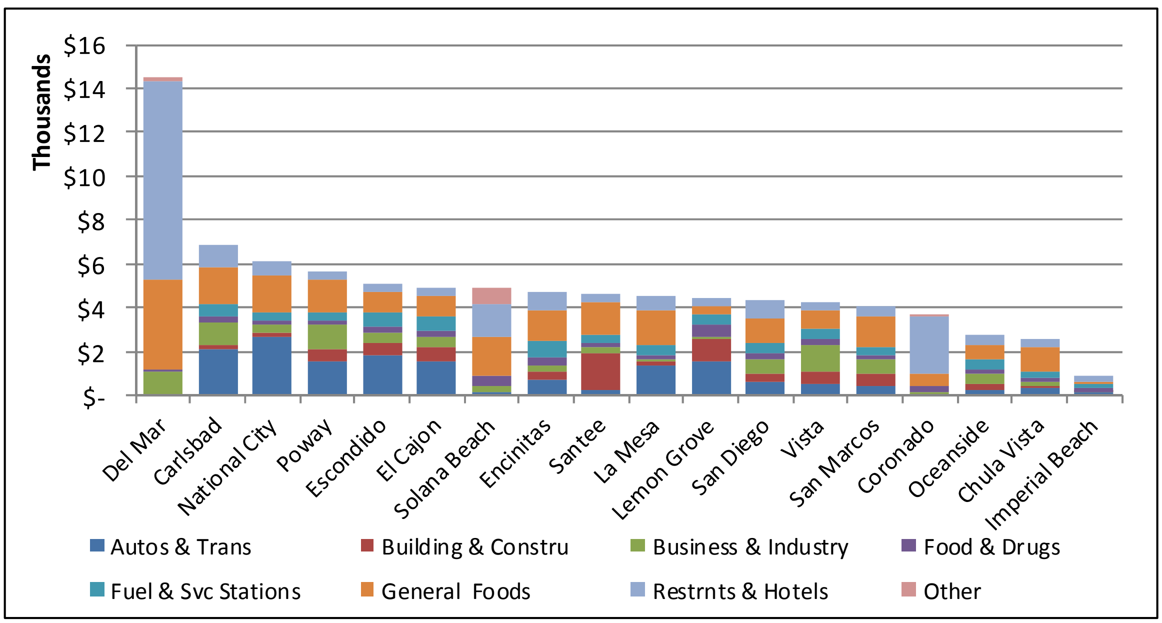
Sales Tax Forecast

Fiscal Year	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Sales Tax	$29,171,174	$30,455,693	$31,064,807	$31,996,751	$32,956,654	$33,945,353
% Change	1.9%	4.4%	2.0%	3.0%	3.0%	3.0%

Although sales tax revenues are projected to increase, the City of Chula Vista continues to be challenged in the generation of taxable sales per capita when compared to other County cities. As noted on the following chart, taxable sales per capita for the City is only $2,602 while Del Mar has the highest taxable sales per capita at a rate of $14,490. This comparison indicates that the City's residents spend a high percentage of their retail dollars elsewhere. The City is continuing its efforts on developing the retail business base by focusing on projects such as the expansion of the auto park, the Millenia project and development of its bayfront in order to improve the City's long-term fiscal health.

In an effort to boost sales tax receipts, the City has also launched the "Shop Chula Vista Now" campaign. The Shop Chula Vista Now campaign promotes purchases by Chula Vista residents, visitors, and employees at Chula Vista businesses. The program seeks to educate residents, public officials, businesses and community leaders about how buying goods and services locally translates into more money for Chula Vista services, improves the success of local businesses, creates employment, and benefits the local economy and future of the City.

Sales Tax Per Capita



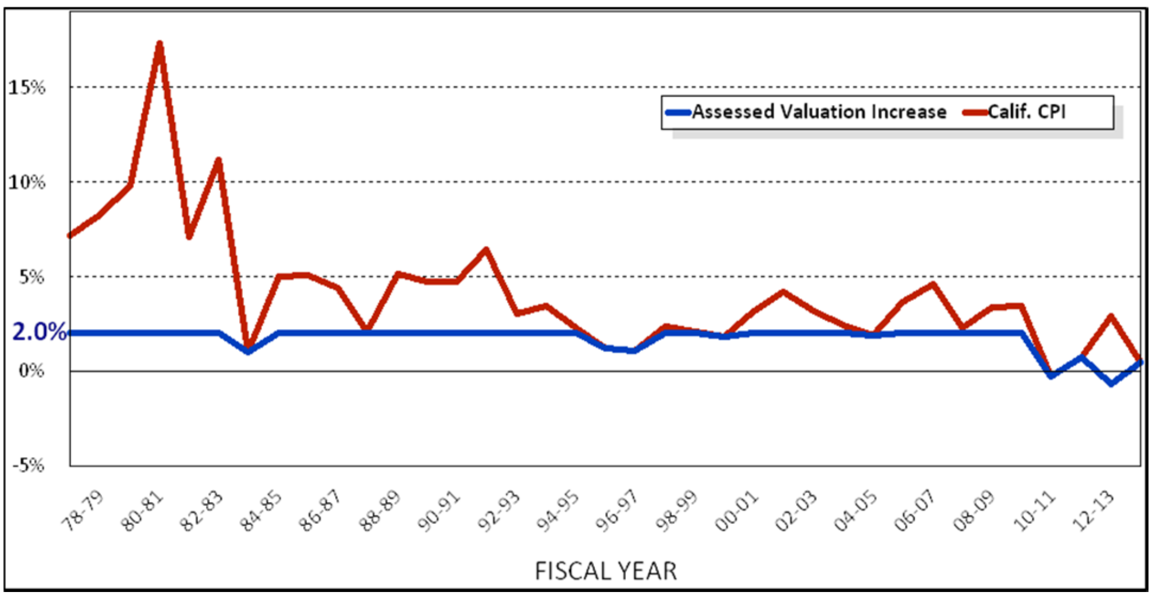
Source: Hdl Companies 2014 3rd Quarter Sales Tax Report.

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.

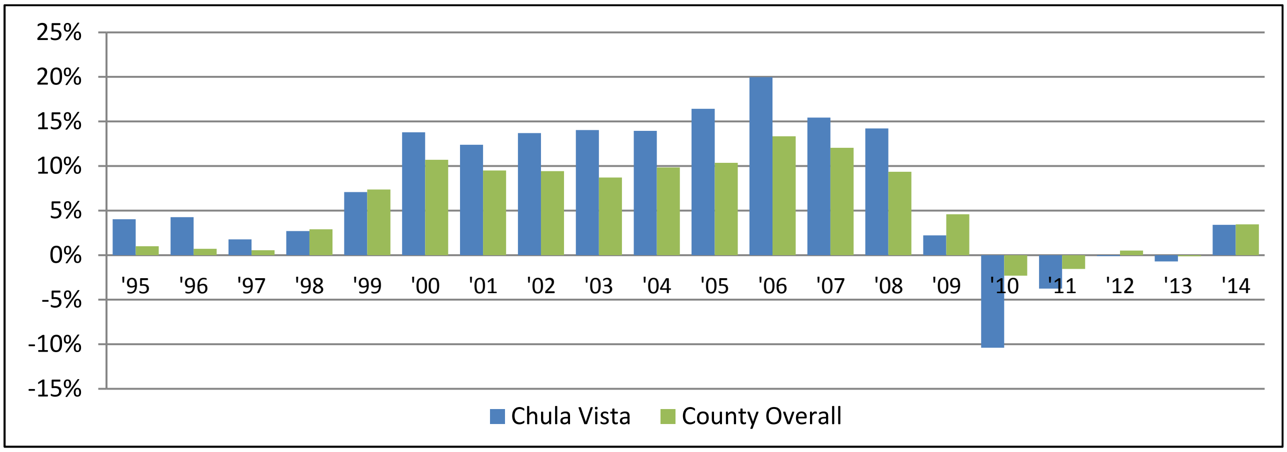
As the following chart indicates, though rare, there has been an instance where the change in the CPI was negative. As a result, the County Assessor adjusted the entire Assessed Value base downward impacting property tax revenues received by taxing agencies.

Historical Change in Assessed Value vs Changes in the California CPI



The projected increase in property taxes is driven by an improvement in citywide assessed valuations that began to increase in 2014. Based on the County Assessor's estimate the City is projecting a 6.6% increase in assessed values in 2015. The City and County historical changes in assessed valuations are depicted in the following graph.

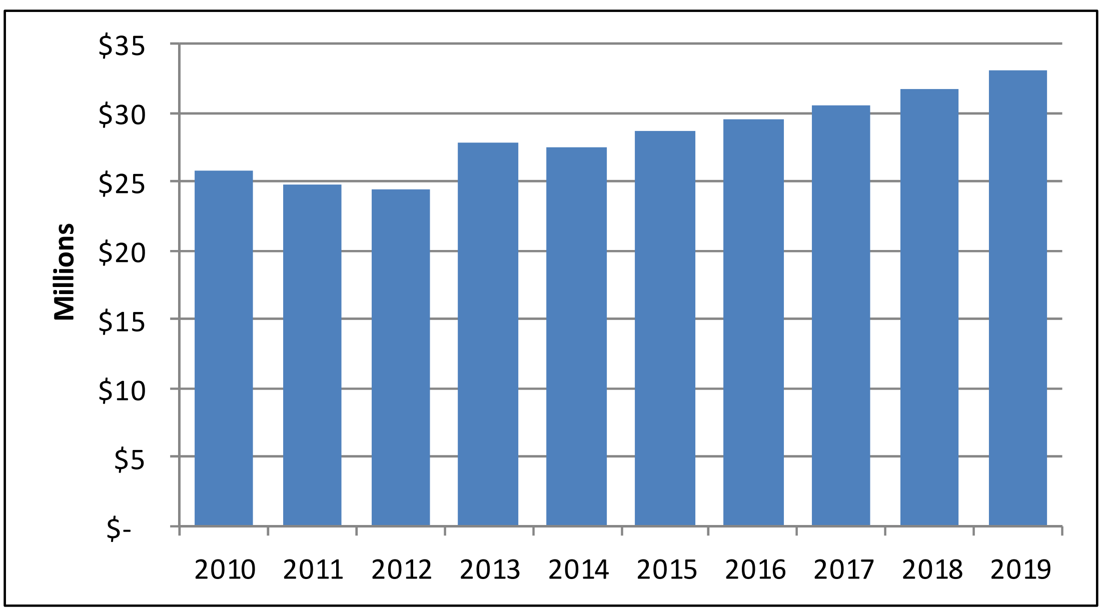
Historical Change in Assessed Value
City of Chula Vista and Countywide Comparison



Source: County of San Diego Assessors Office.

The following chart reflects the changes in Property Tax revenues since 2010. This revenue source dropped to $24.5 million in fiscal year 2012 and has steadily increased since that time.

Property Tax Revenues
Fiscal Years 2010 to 2019



Note: Fiscal years 2010 to 2014 represent actuals, fiscal years 2015 to 2019 reflect projections.

Property tax revenues are estimated to continue their upward trend throughout the forecast period. The forecast assumes that the City will receive the CPI driven 2% assessed valuation increase throughout the forecast period providing stability to the property tax revenue base. The projected increases also assume that City assessed valuations will continue to recover as result of improved real estate market conditions.

Overall, property tax revenues are projected to increase by 20.5% at the end of the forecast period representing a 3.8% average annual growth rate. The property tax revenue forecast also includes increases in other property tax related revenues such as secured, unsecured and supplemental property tax revenues that are projected to increase from 2%-3% throughout the forecast period. The following table reflects the projected changes in Property Tax revenues during the forecast period.

Property Tax Forecast

Fiscal Year	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Property Tax	$27,451,232	$28,659,698	$29,499,414	$30,638,439	$31,822,205	$33,073,537
% Change	-1.5%	4.4%	2.9%	3.9%	3.9%	3.9%

Motor Vehicle License Fee

The vehicle license fee (VLF) was initially established back in 1948 and was directed to local government. The State had previously assessed a 2% of value VLF on car registrants on behalf of local governments.

With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. Since 2005-06 the majority of VLF revenues for each city grew 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 fluctuated with changes in assessed values within the City.

The other 4% of VLF revenues received by the City were based on a per capita formula but has since been shifted per SB89. Provisions in SB89 shifted hundreds of millions of Vehicle License Fee revenues to fund the state law enforcement grants. Statewide, SB89 took $130 million of city general revenue and shifted it to save state law enforcement grant programs. This change applied to the 4% of VLF revenues that were based on a per capita formula. The City of Chula Vista lost approximately $700,000 annually due to the State take away. Only $100,000 is reflected in the City's fiscal year 2014-15 budget of VLF revenues.

VLF revenues are projected to increase by 23.4% averaging a 3% yearly growth over the forecast period. The projected growth rate is expected to mirror the improvements in the housing market resulting in increased assessed values.

Motor Vehicle in Lieu Fees Forecast

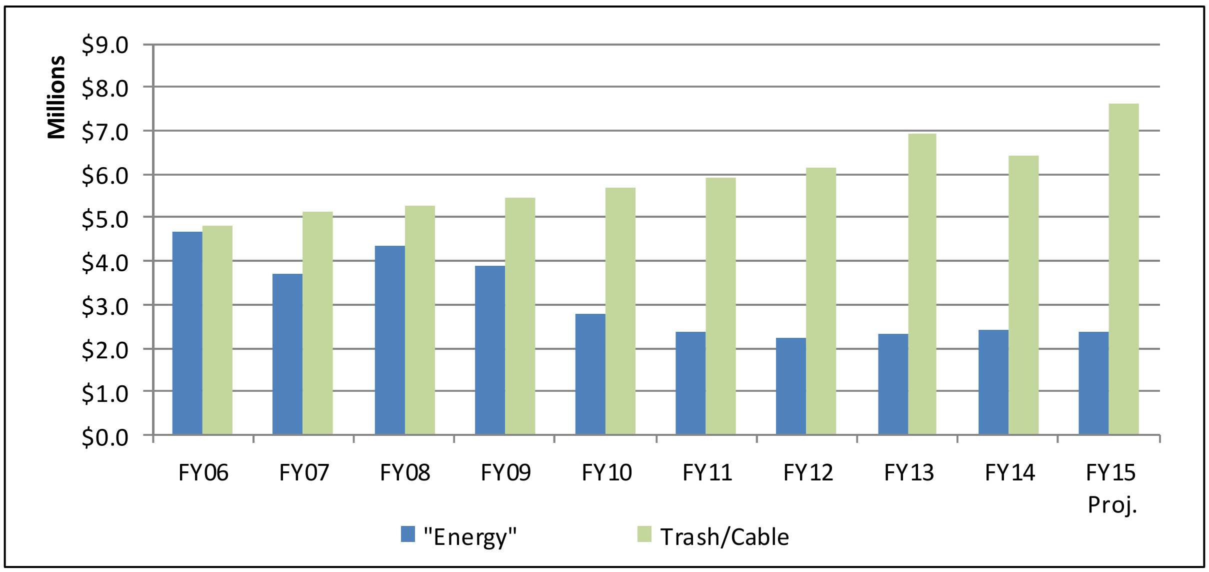
Fiscal Year	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Motor Vehicle in Lieu	$16,773,957	$17,870,912	$18,405,951	$19,139,967	$19,903,300	$20,697,122
% Change	3.2%	6.5%	3.0%	4.0%	4.0%	4.0%

Franchise Fees Taxes

Franchise fee revenues are generated from public utility usages from sources such as San Diego Gas & Electric (2% on gas and 1.25% on electricity), trash collection franchises (20% 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.

The energy component of franchise fee revenues has decreased in recent years in part due to the closure of the power plant. Variances in franchise fee revenues are affected by customer usage of energy. The Trash franchise fees and cable fees are based on fixed rates and are more stable. Revenue growth is projected based on population and inflation factors.

Franchise Fee Revenues



Franchise fee revenues are projected to increase by 32.2% throughout the forecast period with the highest increases projected in fiscal years 2014-15 and 2015-16 respectively reflecting the full impact of the recent franchise agreements that have been negotiated by the City. The fiscal year 2015-16 budget reflects the projected annualized impact of the new franchise agreements. This revenue source is projected to grow at a more moderate 1.3% for the remainder of the forecast period.

Franchise Fees Forecast

Fiscal Year	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Franchise Fees	$ 8,845,067	$ 10,188,250	$ 11,234,049	$ 11,383,047	$ 11,535,317	$ 11,690,933
% Change	-4.6%	15.2%	10.3%	1.3%	1.3%	1.3%

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 a rate of 4.75% of gross receipts. For natural gas services UUT is applied at a rate of usage $0.00919 per therm and $0.00250 per kilowatt on electricity services, which equates to approximately a 1% tax. Fiscal year 2014-15 energy related UUT is budgeted at $3.5 million.

On April 12, 2013 the City approved a settlement agreement that resolved a class action lawsuit challenging the City's collection of the wireless telecom portion of the UUT from customers. The settlement received final approval of the court and became fully effective as of February 11, 2014. As a result, the fiscal year 2013-14 budget reflects a mid-year appropriation (Council resolution 2013-092) of previously collected wireless telecommunication related tax revenue that had remained unallocated pending the settlement of the lawsuit. Wireless telephone users' tax funds are budgeted at $3.6 million in the fiscal year 2014-15 budget reflecting the re-incorporation of this revenue source into the City's revenue base.

Utility Users Tax revenues are projected increase 4.1% from fiscal year 2015 through the balance of the forecast period growing at a projected 1.0% annual growth rate.

Utility Users Tax Forecast

Fiscal Year	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Utility Users Taxes	$ 15,055,874	$ 7,175,000	$ 7,246,750	$ 7,319,218	$ 7,392,410	$ 7,466,334
% Change	240.0%	-52.3%	1.0%	1.0%	1.0%	1.0%

Note: Fiscal year 2014 Utility Users Taxes (UUT) reflect the City's settlement of a class action lawsuit challenging the City's collection of the wireless telecom portion of the UUT from customers. Previously collected but unrecognized utility users tax revenues were appropriated into the budget mid-year in fiscal year 2014 as a one-time adjustment. Projected fiscal year 2015 UUT revenues reflect the incorporation of UUT revenues into the base budget.

Transient Occupancy Tax

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 additional hotels are built capturing the market created by the growth in the eastern section of the City. Several potential new hotel developments are being proposed in the City primarily in the Millenia project and the Bayfront.

During the economic recession, TOT revenue dropped due to the lack of discretionary spending by consumers. However, the trend for City TOT revenues has been improving since 2010 as actual TOT revenue has increased on a yearly basis. Fiscal year 2013-14 actual TOT revenues increased 5.6% from the previous fiscal year. Reflecting the improving trend, fiscal year 2014-15 TOT revenues have been increased by 3.0% over the fiscal year 2013-14 TOT revenues. TOT revenues are projected to increase by 15.9% over the forecast period averaging a yearly growth rate of 3.0%.

Transient Occupancy Tax Forecast

Fiscal Year	Actual 2014	Projected 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
TOT	$ 2,609,547	$ 2,687,833	$ 2,768,468	$ 2,851,522	$ 2,937,068	$ 3,025,180
% Change	5.6%	3.00%	3.00%	3.00%	3.00%	3.00%

General Fund Expenditures

The General Fund budget funds the day-to-day operations of most city services, including Police, Fire, Library and Recreation services. This section of the report highlights some of the major assumptions used in developing the forecast and issues that can have a significant impact on costs.

As previously noted, the City is recovering from the economic recession at a steady but modest pace. These positive changes ease the pressure in maintaining expenditures in line with anticipated revenues. The fiscal year 2014-15 adopted budget included a number of adjustments that were needed to balance the budget however, these adjustments did not result in significant reductions in service levels.

City funds, including the General Fund, are organized into the following expenditure categories:

- Personnel Services –this category includes expenses related to employee compensation including salaries, wages, overtime, retirement benefits, health benefits, and special compensation such as bilingual pay.

- Supplies and Services – this category includes the budget for supplies required for the daily operation of the City and for contractual and professional services. This category also includes fleet maintenance charges, insurance costs, and software maintenance fees.

- Utilities – this category includes the budgets for utilities including water, gas and electricity, phone service, and trash collection.

- Operating Capital - Expenditures related to the acquisition of capital equipment (over $10,000) and automotive equipment are included in this category. Acquisition, improvements, and replacement of infrastructure are budgeted in the CIP Projects category.

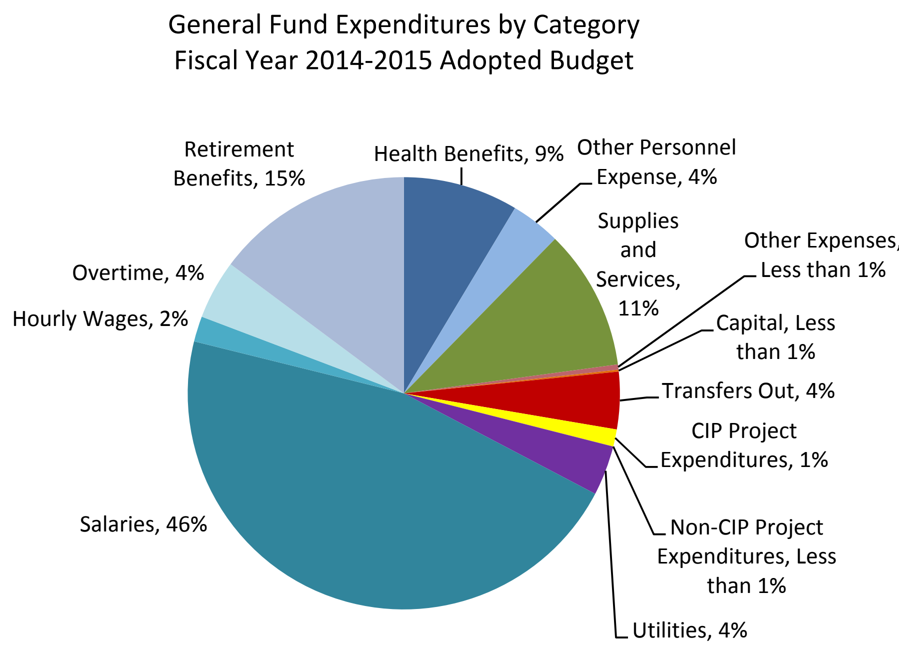
- CIP Projects – This category includes the budgets for any major construction, acquisition, or renovation that increases the useful life of the City's physical assets or increases their value.

- Non-CIP Projects - Non CIP Projects consist of projects that are not included in the Capital Improvement Plan. These projects are non-capital in nature. Included in this category are multi-year projects for grant awards.

- Transfers Out – This category includes transfers from the General Fund to other funds. Included in this category are transfers related to debt service payments.

- Other Expenses – All budgeted expenditures that do not fall into of the categories listed above. Examples of expenses included in this category are reimbursement to other agencies and damage to City property.

The following table reflects the fiscal year 2015 adopted budget by expenditure category.



General Fund expenditures are projected to continue to grow at a moderate pace. Overall, General Fund expenditures are projected to grow by 12.0% over the forecast period increasing from $136.6 million in fiscal year 2014-15 to $153.0 million in fiscal year 2018-19. Expenditures are projected to outpace revenues beginning in fiscal year 2015-16 and are projected to continue to outpace revenue growth for the remainder of the forecast period. It is important to note that the forecast is not a budget and no budget balancing measures are recommended at this time. Projected deficits will be addressed as the budget for the upcoming fiscal year is prepared and revenue and expenditure trends are updated. The City will continue to make adjustments as needed to maintain a balanced budget – these changes will be considered by the City Council through the annual budget development process.

The following table reflects the forecast for the General Fund for fiscal years 2015 to 2019.

Forecast of General Fund Expenditures – Fiscal Years 2015 to 2019

Description	AB FY 2015	Forecast FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019
Expenditures:					
Personnel Services	$ 78,047,309	$ 78,611,354	$ 79,480,908	$ 79,817,569	$ 79,817,569
Flex/Insurance	$ 11,443,288	$ 12,423,952	$ 13,336,883	$ 14,324,646	$ 15,393,901
PERS	$ 20,146,426	$ 21,608,612	$ 22,996,199	$ 24,219,312	$ 25,307,850
Salary Savings	$ (1,224,909)	$ (840,946)	$ (840,946)	$ (840,946)	$ (840,946)
Est. Pension Impact Due to Mortality Change	$ -	$ -	$ 1,087,219	$ 2,174,326	$ 3,262,036
Workers Compensation GF Liability	$ -	$ 500,000	$ 500,000	$ 500,000	$ 500,000
Subtotal Personnel Services	$ 108,412,114	$ 112,302,972	$ 116,560,263	$ 120,194,907	$ 123,440,410
Supplies and Services	$ 14,443,230	$ 14,443,836	$ 14,732,713	$ 15,027,367	$ 15,327,915
Utilities	$ 5,451,848	$ 5,682,528	$ 5,966,655	$ 6,264,988	$ 6,578,237
Other Expenses	$ 598,625	$ 527,457	$ 538,006	$ 548,767	$ 559,742
Equipment (Capital not CIP)	$ 205,669	$ 158,500	$ 158,500	$ 158,500	$ 158,500
Transfers/Debt Service	$ 5,745,663	$ 6,385,493	$ 6,387,463	$ 6,381,139	$ 6,390,544
Capital Improvement Projects	$ 1,724,067	$ -	$ -	$ -	$ -
Non-CIP Project Expenditures	$ 18,700	$ -	$ -	$ -	$ -
Absorption of Police Grant Positions	$ -	$ 369,600	$ 386,671	$ 392,849	$ 531,243
Orange Park Maintenance	$ -	$ 44,460	$ 44,460	$ 44,460	$ 44,460
Subtotal Other Expenses	$ 28,187,802	$ 27,611,875	$ 28,214,468	$ 28,818,069	$ 29,590,640
Total Expenditures	**$ 136,599,916**	**$ 139,914,847**	**$ 144,774,731**	**$ 149,012,976**	**$ 153,031,050**

The forecast was developed based on the status quo – no new positions or services/programs were included during the forecast period. The expenditure forecast reflects the estimated cost of providing the current levels of service with current staffing. The exception to this are Police grant funded positions budgeted outside of the General Fund. The forecast assumes that the General Fund will begin to absorb Police grant funded positions as the funding for these positions phases out.

The forecast reflects the following major assumptions:

- Personnel projections reflect only currently negotiated wage increases with the City's bargaining groups. There are no wage increases assumed beyond the term of the Memorandums of Understanding with the respective bargaining groups - wages remain flat for the years where there is no MOU in place.

- Flex Plan increases are based on projected 10% health care premium increases per fiscal year based on historical trends.

- Retirement (PERS) costs are based on the October 2013 Annual Valuation Report provided by CalPERS and reflect the contribution rates based on CalPERS meeting the 7.5% return on investment (discount rate).

- Fiscal year 2014-15 reflects a higher than normal salary savings (which account for turnover and vacancies) in order to balance the General Fund. Starting in fiscal year 2015-16 salary savings are based on 1% of projected Salary/PERS/Medicare to reflect shorter vacancy periods.

- A separate estimate is provided for the impact on the contribution rates based on the changes to the mortality rate assumptions. It is anticipated that the change in mortality assumptions will cause contribution rates to increase; this change will go into effect in fiscal year 2016-17. The estimated costs are based on preliminary information provided by CalPERS.

- Beginning in fiscal year 2015-16 it is anticipated that the Workers Compensation Fund will have depleted its fund balance and that the General Funds' share of the increased costs will be approximately $500,000 per year.

- Supplies and Services are projected to grow at a moderate 2% rate starting in fiscal year 2016 to account for CPI increases.

- Utilities are projected to increase 2% on annual basis throughout the forecast period. Actual rate increases will depend on usage and actual rate increases.

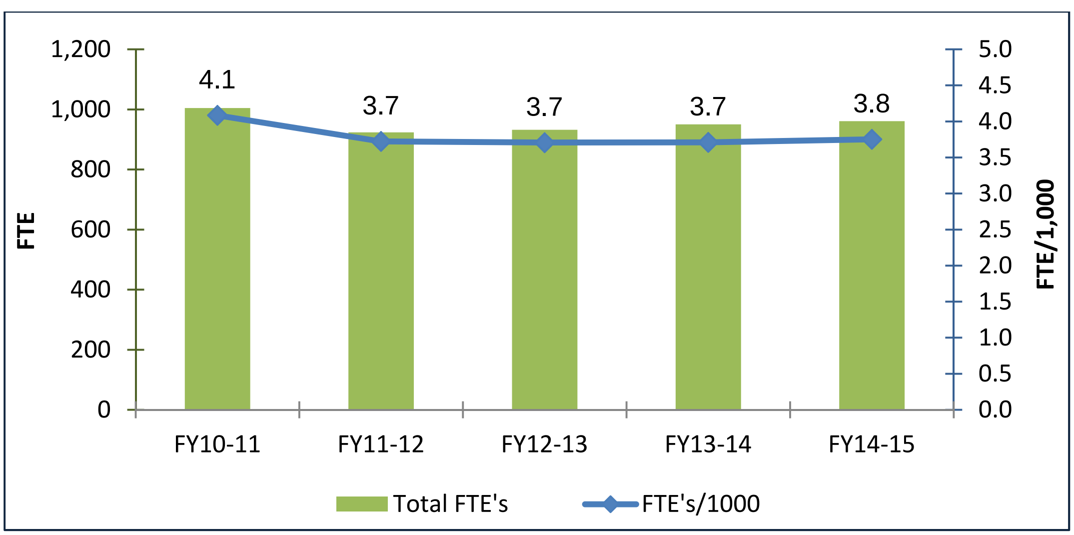
- No funding for capital improvement projects is included in the General Fund through the forecast period.

- Other expenditures included in the forecast are the anticipated cost for maintenance of Orange Park and the absorption of Police grant funded positions into the General Fund.

Personnel Services represents the largest expenditure category in the General Fund. This category includes funding for the 806.25 permanent positions included in the General Fund as well as funding for hourly staffing. Changes in staffing levels, salary adjustments, retirement costs, health care (flex) costs, and workers comp costs can impact Personnel Services significantly. Additional discussion on these costs is provided below.

<u>Staffing Levels</u> - Despite the City's continued population growth, staffing levels have been reduced in order mitigate budget deficits. From fiscal year 2007 to fiscal year 2012 permanent staffing was reduced across all funds from 1,264 to 925, a reduction of approximately 27%. Since then staffing was been slowly increased to 961 for all funds. As reflected in the following graph, the number of FTEs per thousand population decreased from 4.1 in 2010-11 to 3.7 in fiscal year 2011-12 and has remained steady since that point.

City of Chula Vista Staffing (FTEs)
Compared to FTEs per Thousand Residents



Some of these reductions resulted in service impacts or the elimination of programs. As discussed earlier, the forecast does not include funding for new positions during the forecast period. The City will continue to focus on increasing operational efficiency with the Continuous Improvement program. Funding for new positions needed as a result of new development should be funded from new revenues generated as a result of the development. Funding for new positions for new programs or expanded services may require trade-offs as the forecast currently reflects a deficit during the forecast period.

Salary Adjustments – During the recession period, the City's bargaining groups worked with City management to reach new agreements that reduced personnel costs in an effort to balance the budget. The adjustments to employee compensation included wage concessions and pension reform. Subsequently, the City finances have stabilized and improved to the point where the City has been able to fund salary increases to its employee bargaining groups. The following table reflects the salary adjustments that are included in the forecast, these increases correspond with the Memorandums of Understanding (MOU) currently in place with the City's bargaining groups. No salary increases are assumed for years where there is no MOU in place. Future forecasts will be updated to reflect negotiated salary agreements.

Wage Increases by Employee Group and Fiscal Year

Bargaining Group/Employee Group	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018	Fiscal Year 2019
Chula Vista Employees Association	2%				
Chula Vista Mid Managers/Professional Association	2%				
International Association of Fire Fighters	2%	2%	2%		
Chula Vista Police Officers Association	3%	3%	3%		
Western Council of Engineers	2%				
Unrepresented Employees	2%				
Elected Officials	Set by Charter	Set by Charter	Set by Charter	Set by Charter	Set by Charter

Note: The table reflects the current Memorandums of Understanding (MOU) with the City's bargaining units. The MOU's for the Chula Vista Employees Association, Mid Managers/Professional Association, and Western Council of Engineers expire on June 30, 2015. Future updates of the forecast will incorporate the new MOU agreements.

Retirement Costs – The increase in retirement costs driven by rising CalPERS costs is a significant budgetary challenge facing the City as retirement costs have been trending higher since fiscal year 2011-12. The payments made to the retirement system equal 15.0% of the City's General Fund in the fiscal year 2014-15 adopted budget.

Increases in CalPERS contributions can be attributed to several factors. In the early 2000's the City approved enhanced formula benefits for all City employees. During the recent economic downturn, the City also approved an early retirement incentive to encourage employees to retire thereby reducing the number of layoffs, but increasing the City's payment to CalPERS. During this same time period, CalPERS experienced significant investment losses.

In addition, CalPERS has made a series of changes that have resulted in higher contribution rates. 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%. In 2012, the CalPERS Board of Administration approved a recommendation to lower the rate investment return assumption from 7.75% to 7.50%.

Additional changes that have been implemented by CalPERS include a change to the CalPERS amortization and smoothing policies. With this change, CalPERS has employed an amortization and smoothing policy that will pay for all gains and losses over a fixed 30-year period with the increases or decreases in the rate spread directly over a 5-year period.

More recently, as discussed in the February 2014 circular, CalPERS has focused in on current asset allocations in an effort to stem the volatility of investment returns as it implements its investment strategies to achieve the long-term assumed rate of 7.5% for the retirement fund. In addition the CalPERS board also adopted significant changes to actuarial assumptions with respect to mortality rates after evaluation of a demographic study that covered the years 1997-2011. This study yielded the following conclusions that will impact employer contribution rates:

- Men are living two years longer on average
- Women are living one and half years longer on average
- There are higher rates of service retirement for certain groups including firefighters and police officers
- Lower rates of disability retirements for all groups
- Members with longer service received higher salary increases

The changes to the mortality assumptions will first be reflected in fiscal year 2016-17; the cost will be spread over twenty years with the increases phased in over the first five years and ramped down over the last five years of the twenty year amortization period. This impact has been reflected in the forecast.

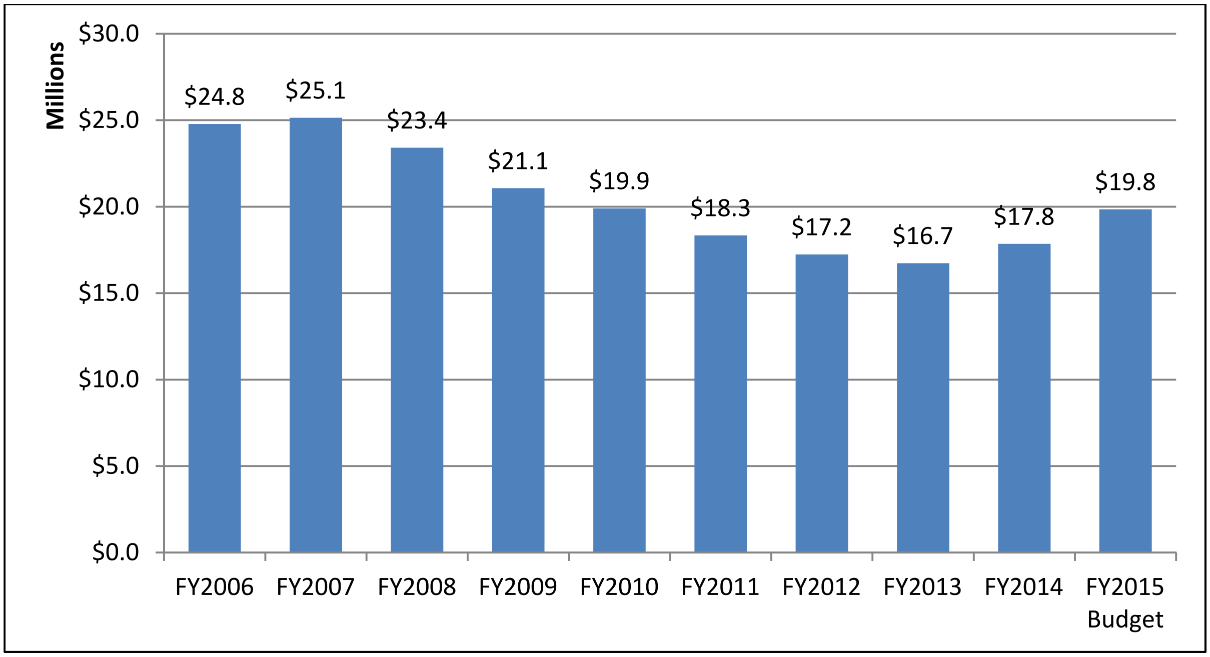
The budgetary impacts caused by the increased employer contribution rates for retirement costs have been significant and will continue to challenge the City in future years. The impact of these cost increases have been partially offset through negotiations with City's bargaining groups that have resulted in the implementation of pension reform. Under the negotiated pension reform, employees agreed to pay their share of pension costs thereby reducing the impact of pension costs to the City's budget. In addition, a second tier was created that provides reduced retirement benefits. Subsequent to the establishment of Tier II, a third tier was created in order to comply with pension reform legislation that was passed in 2012 at the State level, known as the Public Employees' Pension Reform Act of 2013 (PEPRA). Both Tier II and Tier III reflect reduced retirement benefits for employees in these groups and will result in savings in the long term.

The following table reflects the employee contributions for pension by tier for fiscal year 2014.

Benefit Tier	Miscellaneous	Public Safety
Tier I	8.00%	9.00%
Tier II	7.00%	9.00%
Tier III	6.75%	9.00%

To follow is a series of charts related to pension costs. The first chart reflects actual CalPERS costs in the General Fund for fiscal years 2008 to 2014 and budgeted costs for fiscal year 2015. The final chart reflects historical CalPERS contributions illustrating the employer (City) contribution rates from fiscal years 2003-04 to 2014-15 and projected rates for fiscal years 2015-16 through 2019-20.

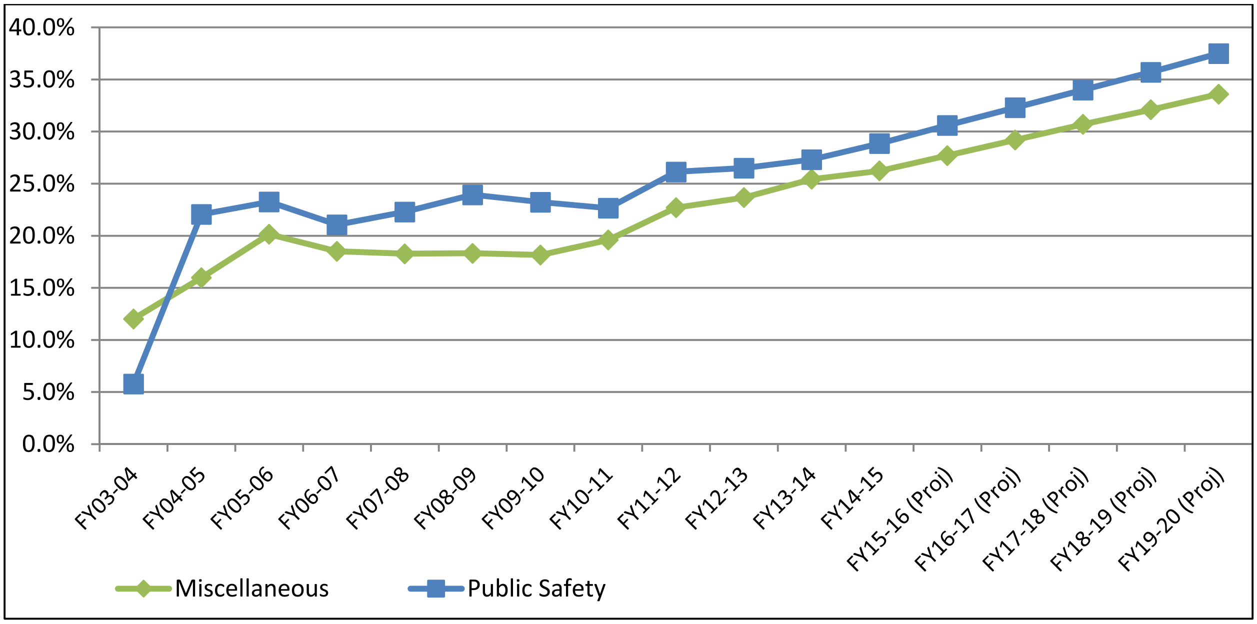
General Fund Retirement Costs



Notes:

1. Fiscal years 2006 to 2014 reflect actual retirement costs and fiscal year 2015 reflects the budgeted amount.
2. The downward trend between fiscal years 2007 and 2013 reflect reductions in staffing levels reductions as well as savings from pension reform, which began implementation in in January 2011.

CalPERS Employer Contribution Rates



Notes:

1. For Tier 1 (Classic) Members the City also pays an additional contribution related to Employer Paid Member Contributions (EPMC). For fiscal year 2015, this represents an additional 2.7% for Miscellaneous and 3.4% for Safety.
2. Projected rates (FY 2016 through FY 2020), based on CalPERS Actuarial Valuation Report as of June 30, 2013 based on the 7.5% investment return scenario.

Health Care Costs - Flex/Health insurance represents 9.0% of the total fiscal year 2014-15 General Fund expenditure budget and accounts for the health care costs for permanent employees. For the forecast period, medical insurance premiums are projected to increase 10% on annual basis. This projection is consistent with the historical increases in insurance premiums. Kaiser and PacifiCare/AETNA[1] insurance premiums have increased an average of 7.7% per year since the beginning of fiscal year 2008-09. As noted in the table below, Kaiser premiums have increased a total of 39.2% during this time while PacifiCare/AETNA premiums have increased 52.2% over the same period.

The following table reflects the changes in health care rate premiums the City has experienced from January 2009 to January 2014.

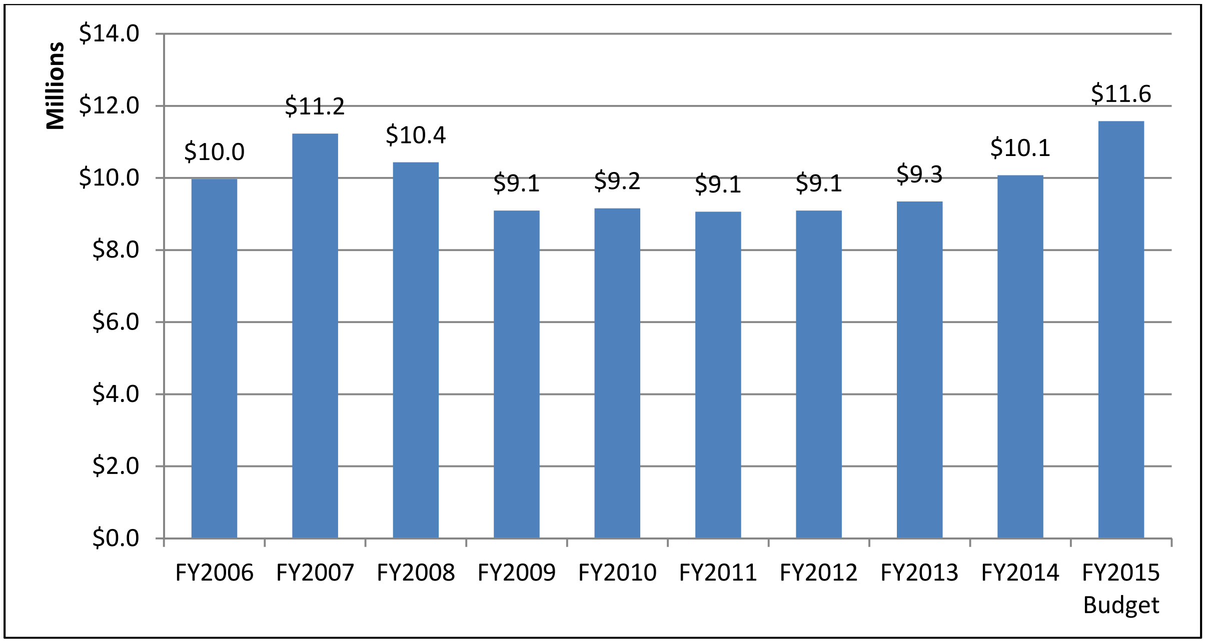
Premium Increases by Health Care Provider

Date of Increase	Kaiser	PacifiCare/ AETNA[1]	Average
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%
January 2013	1.6%	5.5%	3.6%
January 2014	10.2%	8.2%	9.2%
Annual Average Premium Increase	7.3%	8.0%	7.7%

[1] Effective January 2009, the City switched from PacifiCare to AETNA

The following chart illustrates actual Flex/Health insurance costs in the General Fund for fiscal years 2006 to 2014 and budgeted costs for fiscal year 2015.

Flex/Health Insurance Costs



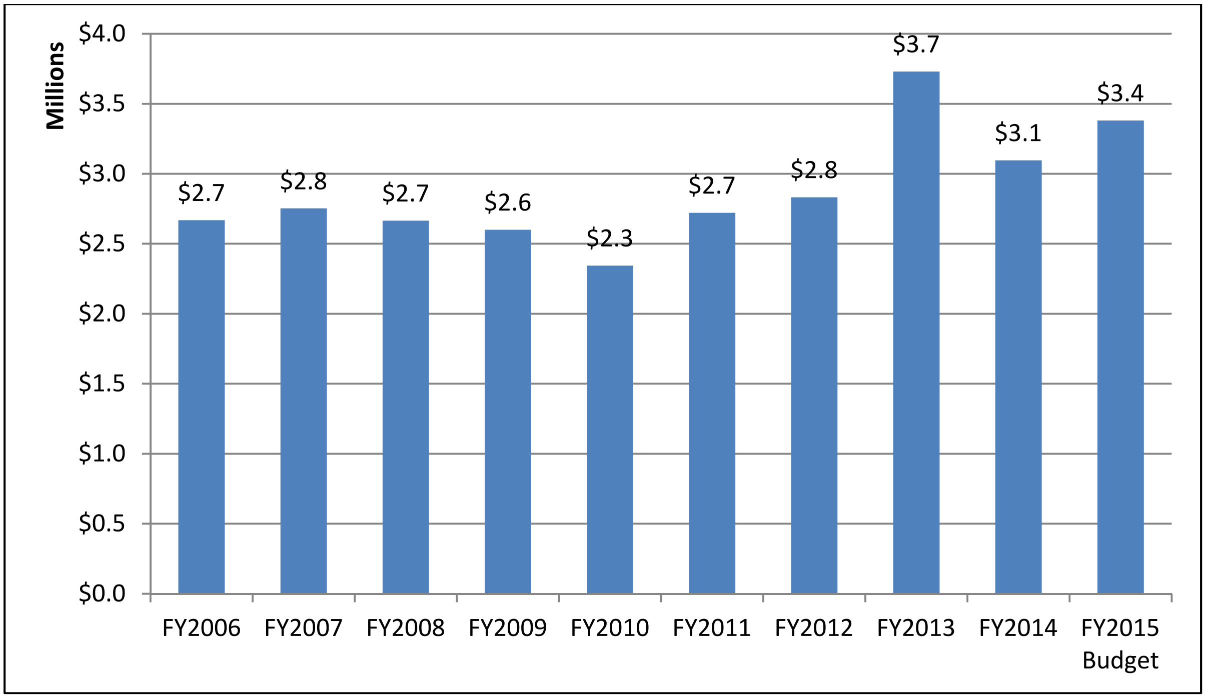
Note: The decrease in actuals in fiscal year 2010-11 and fiscal year 2011-12 was due to the reduction in staffing levels over the same period of time and not caused by a decrease in flex/health insurance costs. In actuality, Flex/Health insurance premiums have increased annually.

Increasing flex/health insurance costs will pose a budgetary challenge to the General Fund; from fiscal year 2015 to fiscal year 2019 these costs are projected to increase by approximately $4.0 million. The City has implemented a Wellness Program and continues to work with the City's insurance brokers to help mitigate these cost increases.

Workers Compensation – The Personnel Services budget includes workers compensation charges. The City accounts for all worker compensation expenses including insurance, claims and other administrative costs in the Workers Compensation Fund. These expenses are funded through charges to the funds that include full time equivalent positions. In fiscal year 2015, the General Fund Personnel Services budget includes $2.1 million in Workers Compensation charges.

The City works to maintain sufficient reserves to pay for incurred and forecasted workers compensation related liabilities based on annual valuation reports prepared by an independent actuary. 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 estimated liabilities are updated annually based on changes in claims experience and updated actuarial information. Over the last several years, estimated liabilities and actual claims experience in the Workers Compensation Fund have increased. The following chart reflects the Workers Compensation Fund's expenditures since fiscal year 2006.

Workers Compensation Fund Expenditures



The unaudited fund balance for the Workers Compensation Fund as of June 30, 2014 totals $1.2 million. Workers Compensation Fund expenditures are projected to continue to increase based on historical trends and outstanding liabilities/claims. Current workers compensation charges (revenue to the Workers Compensation Fund) have not kept pace with the increasing Workers Compensation Fund expenditures and the Workers Compensation Fund would deplete its reserve funds should charges not be increased. Further analysis is needed to determine the appropriate fund balance for the Workers Compensation Fund but it is anticipated that workers compensation charges to the General Fund and other funds will need to increase to keep pace with the increased expenditures. The forecast includes additional charges of $500,000 on annual basis beginning in fiscal year 2016. Staff will continue to review expenditure trends in this fund.

Other Funding Needs

The fiscal years 2015 to 2019 financial forecast has been expanded to include major expenditures that are anticipated to occur during the forecast period. During the recession period, the City deferred equipment replacement and building maintenance costs. As equipment and buildings age, the ability to defer maintenance and or replacement diminishes as emergency repairs occur on a more regular basis.

This section of the report highlights some of the major needs that will likely require funding during the forecast period. Where appropriate, staff will continue to look for one-time funding to help mitigate the impact to the General Fund.

As previously noted, the Five Year Financial Forecast for the General Fund serves as a tool to identify financial trends, shortfalls, and issues so that the City can proactively address them. Specific recommendations to achieve a balanced budget going forward will be presented as part of the annual budget process. It should be noted, that this list of Other Funding Needs is not reflective of all of the outstanding funding requests but rather reflects some of the highest priorities. The purpose of this list is to help highlight some of the funding needs that are not included in the forecast – it is not meant to raise an alarm but rather to provide the opportunity to begin planning for these costs.

The following table represents the Five-Year Financial Forecast for fiscal years 2015 to 2019 including the high priority equipment needs. As noted on the table below, expenditure increases continue to outpace projected revenue growth. The deficit is larger, when taking into account other funding needs such as anticipated maintenance, equipment replacement, and vehicle replacement costs.

Description	Projected FY 2015	Forecast FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019
Revenues:					
Subtotal Major Discretionary Revenues	$ 96,543,255	$ 99,715,424	$ 102,809,809	$ 106,012,244	$ 109,347,708
Subtotal Other Revenues	$ 40,134,838	$ 39,454,851	$ 39,660,300	$ 39,926,982	$ 40,377,845
Total Revenues	**$ 136,678,093**	**$ 139,170,275**	**$ 142,470,108**	**$ 145,939,226**	**$ 149,725,553**
Expenditures:					
Subtotal Personnel Services	$ 108,412,114	$ 112,302,972	$ 116,560,263	$ 120,194,907	$ 123,440,410
Subtotal Non Personnel Services	$ 28,187,802	$ 27,611,875	$ 28,214,468	$ 28,818,069	$ 29,590,640
Total Expenditures	**$ 136,599,916**	**$ 139,914,847**	**$ 144,774,731**	**$ 149,012,976**	**$ 153,031,050**
Subtotal Surplus/(Deficit)	**$ 78,177**	**$ (744,572)**	**$ (2,304,623)**	**$ (3,073,750)**	**$ (3,305,497)**
Surplus/Deficit as % of Budget	0%	-1%	-2%	-2%	-2%
<u>Other Items to Be Considered:</u>					
Regional Communication System (RCS Financing)	$ -	$ -	$ 400,000	$ 400,000	$ 400,000
RCS Radios	$ -	$ -	$ 1,500,000	$ -	$ -
Telegraph Canyon Road Stabilization Project	$ 1,800,000	$ -	$ -	$ -	$ -
Breathing Apparatus - Fire Department	$ -	$ 600,000	$ -	$ -	$ -
Vehicle Replacement	$ -	$ 1,268,500	$ 1,134,500	$ 1,069,000	$ 1,009,000
Building Maintenance	$ -	$ 200,000	$ 200,000	$ 200,000	$ 200,000
Total Other Items	**$ 1,800,000**	**$ 2,068,500**	**$ 3,234,500**	**$ 1,669,000**	**$ 1,609,000**
SURPLUS/(DEFICIT) WITH ADDITIONAL IMPACTS	**$ (1,721,823)**	**$ (2,813,072)**	**$ (5,539,123)**	**$ (4,742,750)**	**$ (4,914,497)**

Other Items to be Considered - The following expenditures have been included in the five-year forecast due to their significance and potential impacts to the General Fund.

- **Regional Communication System (RCS) financing and equipment costs** - The Regional Communications System (RCS) provides public safety and public service radio communications service to San Diego County, Imperial County, 24 incorporated cities, and a multitude of other local, state, federal and tribal government agencies in the San Diego County/Imperial County Region. The RCS is in the planning stages to upgrade the regional public safety communications system. The planning and implementation of a new system will take several years to complete. During the March 11, 2014 City Council meeting, the City Council approved Resolution #2014-44 authorizing the City to enter into an agreement with the County of San Diego to participate in the upgrade of the RCS radio system.

  A portion of the planning effort is to replace a majority of the existing inventory of portable and mobile radios because they will no longer be compatible with the new communications system. Staff estimates that there are approximately 458 radios throughout the fleets for Police, Fire and Public Works that will need to be replaced. To date, funding for the replacement of approximately 200 radios has been identified. Approximately $1.5 million in additional funding is needed in order to fully address the replacement of the radios. These costs may be reduced as staff will continue to identify one-time or grant funding.

  The estimated cost for participating in the Next Gen RCS system will be approximately $4.5 million, this amount excludes financing costs. Financing terms have yet to be provided by the County. The County of San Diego will provide financing options in the near future; this information is not available at this time. The financing costs are estimated at $400,000 per fiscal year beginning in fiscal year 2017. This estimate will be revised as more information becomes available.

- **Telegraph Canyon Stabilization Project –** The project is located on the north parkway of Telegraph Canyon Road between Paseo Ladera and Medical Center Drive. This project will construct a buried retaining wall along the northerly sidewalk of Telegraph Canyon Road to support the existing road improvements and stabilize the bank erosion in Telegraph Canyon channel. The wall will be approximately 900 feet long and will be constructed by a series of overlapping drilled piles 24 to 30 inches in diameter. The current estimate is $1.8 Million. It is anticipated that this project will brought forward for Council consideration in spring 2015.

- **Breathing Apparatus Replacement (Fire Department)** – Self Contained (SCBA) and Supplied Air (SABA) Breathing Apparatus are required by both Fed and Cal OSHA for firefighters who enter an Immediately Dangerous to Life and Health environment (IDLH). NFPA 1881 is the standard to which SCBAs and SABAs are specified by both Fire Departments and Manufactures. Chula Vista Fire employees routinely perform duties in an IDLH environment which requires the use of SCBAs or SABAs. These environments include, but are not limited to Structural Firefighting, Hazardous Materials Response and Confined Space Rescue.

  Due to the latest revision of NFPA 1981, four major changes are required to keep SCBAs and SABAs compliant to the new standard.

  - Low air alarm activation moves from 25% to 33%

- Face-piece improvements against thermal degradation
- Voice intelligibility requirements have increased
- Emergency Breathing Safety System upgrade

Due to the quantity of changes and the investment needed to the Department's aging SCBAs and SABAs (approximately 15 years old), complete replacement of the breathing apparatus is recommended. The preliminary cost estimate for this equipment is $1,000,000. $400,000 has been designated for this project from the TUT Common Fund leaving a funding gap of $600,000.

- **Vehicle Replacement –** In fiscal year 2009 in order to help reduce costs, the City eliminated equipment replacement charges to the General Fund and essentially stopped funding equipment replacement. This practice has continued since that time and vehicles have been replaced on a limited basis. Police vehicles have been primarily replaced using non-General Fund sources such as grants. A limited number of vehicles were replaced from the remaining fund balance in the Equipment Replacement Fund. The fund balance in the Equipment Replacement Fund is close to be being exhausted. The proposed vehicle replacement costs included in the forecast prioritizes the vehicles with the highest miles and/or service costs. The costs identified are not to rebuild the fund balance in the Equipment Replacement Fund but rather continues the City's practice of funding vehicles on a pay as you go basis that was put in place during the recession.

- **Building Maintenance –** During the recession period the City did not keep pace with building maintenance needs. The upkeep of these facilities has historically been reactive with little or no preventive maintenance funding. Deferral of maintenance has accelerated the deterioration across the City's entire facility inventory. Additional funding is needed to address critical repair needs and to begin to establish a more proactive maintenance schedule to reduce costs in the long term. The City owns over one million square feet of public buildings. In the early years, these funds will be used to address critical needs such as roof repairs, HVAC system repairs, aging plumbing, flooring repairs, and other building needs. Upon completion of the asset management condition assessment by GHD the City will move from reactive to proactive using an Asset Management Program (AMP) based on the criticality of the asset and a scoring system that supports asset management decisions.

General Fund Reserves

In November 2009, the City Council approved a resolution updating the City's General Fund Reserve Policy. The new reserve policy provides updated guidelines for the use of reserves and set a new long-term goal for higher General Fund Reserve levels from 8% to 15%. The updated General Fund Reserve Policy also included the establishment of two new reserve funds - the Economic Contingency Reserve and the Catastrophic Event Reserve. It was anticipated that the funding of these reserves would be a long-term goal and would be funded from unanticipated revenues or expenditure savings. The adopted budget has not included a line item to build reserves; all anticipated revenues have been budgeted in order to balance budgets.

Higher reserve levels will help mitigate the negative impact on revenues from economic fluctuations, position the City to withstand potential State revenue takeaways, debt service coverage, and provide a resource to fund unforeseen expenditure requirements. As reflected on the following table, General Fund reserve levels have not only stabilized but have increased since fiscal year 2009. It is important that the City maintain reserves in order to address the following potential issues:

- Dramatic economic fluctuations

- Debt service coverage

- Development impacts – Gaps in timing may occur between when service delivery to new development is needed and when new revenues to offset these costs are generated by the new development

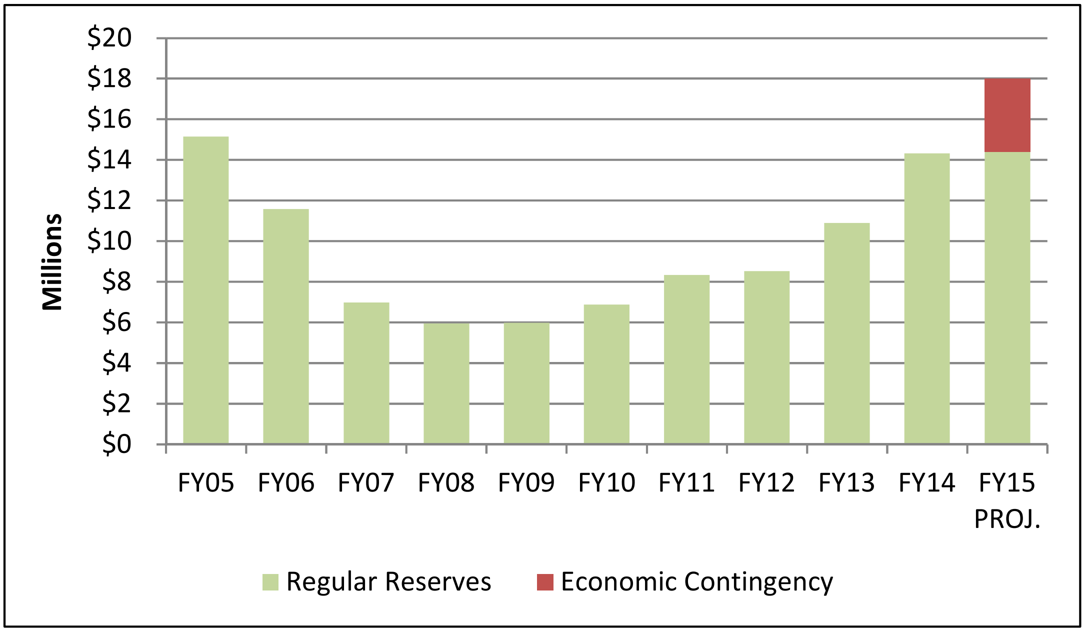
- Deferred Maintenance – deferred building and equipment repairs, equipment replacement, emergency repairs to deteriorating infrastructure.

The unassigned fund balance for the City's General Fund totaled $14.3 million as of June 30, 2014. The General Fund ended fiscal year 2013-14 with approximately 10.4% of the 2013-14 fiscal year budget ($138.4 million) in unassigned fund balance (operating reserves). The City's General Fund reserves have continued to improve since fiscal year 2009 reflecting the City Council's policy direction to increase the operating reserve levels from 8% to 15%. Despite the recessionary impact on its General Fund revenues, the City has taken prudent steps to increase its General Fund reserves from $5.9 million in fiscal year 2009 to $14.3 million in fiscal year 2014.

In addition to the unassigned fund balance, the General Fund ended fiscal year 2013-14 with $3.6 million in the Economic Contingency Reserve. This reserve was established by the City Council in fiscal year 2009 with the approval of the updated General Fund Reserve Policy. The Economic Contingency Reserve has been funded through one-time revenues and/or expenditure savings. The reserve policy sets a reserve goal of 5% for the Economic Contingency Reserve. The General Fund ended fiscal year 2013-14 with approximately 2.6% of the 2013-14 fiscal year budget ($138.4 million) in the Economic Contingency Reserve.

The following chart depicts the City's General Fund reserves from fiscal year 2005.

General Fund Reserves
Fiscal Year 2005 to Fiscal Year 2015



Although the City's General Fund operating reserves have increased, they have yet to reach the desired 15% Council policy directed level. The projected $14.3 million reserves for fiscal year 2015 provide the City welcome flexibility in comparison to previous fiscal years when reserves were comparatively low.

In order to maintain reserve levels, staff will recommend budget balancing strategies to mitigate projected budget deficits without the use of General Fund reserves. To the extent possible, staff will recommend maintaining /increasing reserve levels in an effort for the City to remain positioned to address truly unforeseen financial circumstances that may include; a sudden economic downturn, a City emergency resulting from a natural disaster or a needed emergency repair to a major portion of the City's infrastructure, facility or equipment.

CITY OF
CHULA VISTA