



CITY COUNCIL STAFF REPORT



March 1, 2022

ITEM TITLE

Financial Report and Appropriations: Accept the Quarterly Financial Report for the Quarter Ending December 31, 2021 and Appropriate Funds to Adjust for Variances

Report Number: 22-0079

Location: No specific geographic location

Department: Finance

Environmental Notice: The activity is not a "Project" as defined under Section 15378 of the California Environmental Quality Act State Guidelines; therefore, pursuant to State Guidelines Section 15060(c)(3) no environmental review is required.

Recommended Action

Accept the Quarterly Financial Report for the quarter ending December 31, 2021 and adopt a resolution making various amendments to the Fiscal Year 2021/22 budget to adjust for variances and appropriating funds for that purpose. **(4/5 vote required)**

SUMMARY

The Finance Department, in collaboration with other City departments, prepares quarterly financial reports for the General Fund that reflect budget to actual comparisons, projected revenues and expenditures, and highlight major variances that may require additional action or changes as of December 31, 2021. The quarterly financial reports are in compliance with Section 504 (f) of the City Charter, which requires that quarterly financial reports be filed by the Director of Finance through the City Manager.

In preparing the quarterly financial projections, staff has identified various budget changes that are needed to reflect actual revenues and expenditures or address changes in budgetary needs. For government entities, a budget creates a legal framework for spending during the fiscal year. After the budget is approved by the City Council, there are circumstances which arise that could require adjustments to the approved budget. Council Policy 220-02 "Financial Reporting and Transfer Authority" was established in January of 1996 and allows for budget transfers and adjustments to be completed. This report discusses budget adjustments that

staff recommends in the General Fund as well as various other funds to address identified fiscal issues.

In addition to the Fiscal Year 2021/2022 budget recommendations for City funds, this report includes an update on Measure P and Measure A actual revenues and expenditures as of December 31, 2021.

ENVIRONMENTAL REVIEW

The Director of Development Services has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a “Project” as defined under Section 15378 of the State CEQA Guidelines because it will not result in a physical change in the environment; therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines, the activity is not subject to CEQA. Thus, no environmental review is required.

BOARD/COMMISSION/COMMITTEE RECOMMENDATION

Not applicable.

DISCUSSION

The Second Quarter Report is developed using six months of recorded (July 2021 through December 2021) revenue and expenditure activity for Fiscal Year 2021/2022 as of December 31, 2021. City revenues and expenditures are forecasted through the end of the Fiscal Year in collaboration with City departments, consultants, statistical data, trend analysis and other resources. The data in this report is the most current data available; however, the data and projections are subject to change.

This report will provide summary information for the following areas:

- Major General Fund Revenues and Expenditures
- Adjustments to General Fund Expenditures
- Adjustments to non-General Fund funds
- Update to the Measure P and Measure A Funds

Attachment A – Quarterly Financial Report provides additional information for the financial outlook for the General Fund for the current fiscal year including City revenues and expenditures.

The Finance Department will continue to monitor the City’s actual revenues and expenditures and will provide any significant changes in subsequent quarterly budget monitoring reports.

General Fund Overview

The City’s Fiscal Year 2021/2022 financial outlook is primarily unchanged as overall General Fund expenditures are projected to slightly exceed revenues by approximately \$0.2 million (General Fund deficit). Overall, Sales Tax projections are above budget by \$3.1 million based upon updated information from the City’s sales tax consultant. The Sales Tax revenue projections for Measures A and P increased by \$5.3 million; however, a corresponding transfer out from the General Fund to the respective Measure P and Measure A Funds will result in a net zero impact to the General Fund. Additional information on General Fund revenue and expenditures are provided in the attachment to this report.

American Rescue Plan Act of 2021

On May 10, 2021, the U.S. Department of the Treasury launched the Coronavirus State and Local Fiscal

Recovery Funds (“SLFRF”), established by the American Rescue Plan Act of 2021 (“ARPA”), to provide \$350 billion in emergency funding for eligible state, local, territorial, and Tribal governments to respond to COVID-19. The SLFRF funds provide substantial flexibility for each jurisdiction to meet local needs, including support for households, small businesses, impacted industries, and essential workers, in communities hardest hit by the crisis. No recipient may use this funding for pension fund deposits or to offset tax reductions.

The City of Chula Vista will receive approximately \$57.5 million in ARPA SLFRF funding to be obligated by the end of 2024 and expended by the end of 2026. On August 24, 2021, Council adopted the City Manager’s plan for the \$57.5 million in ARPA SLFRF funding. Staff carefully evaluated the allowable uses of ARPA funds to ensure they could be leveraged to the fullest extent possible for the community on unfunded projects that pose a threat to the General Fund fund balance.

Of the total ARPA budget, \$28.8 million is appropriated for Fiscal Year 2022 to support infrastructure projects, operational support, and economic development activities. Of the \$28.8 million Fiscal Year 2022 budget, \$14 million is appropriated into the General Fund via transfers in from the American Rescue Plan Fund to support the provision of government services via various department-led projects. Additionally, ten (10) positions were added to the General Fund to support these projects.

Major General Fund Revenues

The City’s major General Fund revenues, which make up approximately 77% of the City’s General Fund revenues, are projected to be \$9.6 million more than the Revised Budget amounts, largely as a result of increased projections for Sales Tax, Motor Vehicle License Fees (VLF), Measure A, and Measure P revenues. Utility Users Taxes and Transient Occupancy Tax are projected to be at budget based on current trends. Franchise Fee revenues are anticipated to be impacted by the Republic Services waste collection interruption that occurred between December 17, 2021, and January 17, 2022. Staff is monitoring the impacts of this event on the collection of Franchise Fee revenues. This includes potential associated penalties and fee revenues for untimely payments and other contractual commitments, as well as seeking reimbursements from Republic Services for incurred costs by the City for collecting trash to address public safety during the period of the strike.

Table 1: Fiscal Year 2021/2022 Major General Fund Revenue Projections summarizes the revenue projections.

Table 1 - Fiscal Year 2021/2022 Major General Fund Revenue Projections

Revenue Category	FY 2022 Revised Budget	FY 2022 Projected Actuals	Variance
Property Tax	39,433,546	39,433,546	-
Sales Tax	39,717,123	42,859,459	3,142,336
Measure P Sales Tax	23,042,000	25,702,243	2,660,243
Measure A Sales Tax	23,042,000	25,719,709	2,677,709
PT in lieu of Motor Vehicle License Fee (VLF)	24,886,300	25,981,110	1,094,810
Franchise Fees	12,901,132	12,901,132	-
Utility Users Taxes	3,800,000	3,800,000	-
Transient Occupancy Tax	4,942,189	4,942,189	-
Total	\$ 171,764,290	\$ 181,339,388	\$ 9,575,098

The remaining General Fund revenues (not represented in Table 1) are anticipated to be approximately \$0.4 million below the Revised Budget amounts. All the General Fund revenues are summarized in Attachment A. The overall General Fund revenues are projected to be above the Revised Budget by approximately \$9.2 million.

Major General Fund Expenditures

The City's major General Fund expenditures, which make up approximately 65% of the City's General Fund expenditures, are shown in Table 2. As of the end of the second quarter of Fiscal Year 2021/2022, Personnel Services expenditures are projected to be under budget by approximately \$0.6 million, Supplies and Services expenditures are projected to be under budget by approximately \$0.1 million, and Utility expenditures are projected to exceed budget by approximately \$0.6 million, resulting in a net decrease of approximately \$0.1 million in expenses. Based on the percentage of the Revised Budget expended to date, the major General Fund expenditures are in line with projections. Staff will continue to monitor expenditures to identify any costs that might continue to trend higher than anticipated and propose future actions to address these expenses. Additional, information related to departmental expenditures is provided in the attachment.

As mentioned previously, due to an increase in Measure P and Measure A revenues, a corresponding transfer out from the General Fund to the Measure P and Measure A funds will increase expenditures (transfers out) by approximately \$5.3 million. The remaining General Fund expenditures (not represented in Table 2) are largely in line with projections but include increased costs for Fire Academy and Fire Strike Team, and other departmental updates.

Table 2 - Fiscal Year 2021/2022 General Fund Major Expenditure Projections

Expenditure Category	FY 2022 Revised Budget	FY 2022 Projected Actuals	FY 2022 Expended to date	% Expended
Personnel Services	124,681,698	124,120,795	56,411,155	45.4%
Supplies and Services	15,733,970	15,624,851	8,486,263	54.3%
Utilities	4,903,424	5,505,651	2,757,893	50.1%
Total	\$ 145,319,092	\$ 145,251,297	\$ 67,655,310	46.6%

Pension Reserve Fund Additional Contribution

The Pension & OPEB Reserve Fund Policy established the City's Pension Reserve Fund (PRF). Per the policy, upon meeting the 15% General Fund Operating Reserve, 75% of all surplus funds shall be transferred to the PRF. The Annual Comprehensive Financial Report for Fiscal year Ended on June 30, 2021 identified \$2,464,336 in surplus funds will be recommended as an additional contribution to the PRF in fiscal year 2021-2022. The policy also states that 75% of the net annual savings from the issuance of Pension Obligation Bonds (determined at bond issuance for years 1-10, not adjusted annually for any new unfunded liability or change in actuarial assumptions) for bond fiscal years 1 through 10 is required to be transferred to the PRF on an annual basis.

FY2022 Additional Pension Reserve Contribution	
General Fund (FY2021 Fund Balance) – Transfer Out	\$2,464,336
Section 115 Trust Fund – Transfer In	(2,464,336)
Net Cost	\$0

Proposed Fund Adjustments

General Fund

At the conclusion of the second quarter of Fiscal Year 2021/2022, the proposed adjustments are: 1) inter- and intra- Department transfers; 2) expense appropriations associated with offsetting revenue (e.g., grants); appropriations associated with changes in projected revenue. The proposed adjustments, displayed in Table 3, are anticipated to result in a General Fund net cost increase of approximately \$0.5 million (increase of expenses by \$2.8 million and revenue by \$2.3 million). The following chart provides a summary of the proposed budgetary adjustments.

Table 3 - General Fund Budget Adjustments Summary - 2nd Quarter Fiscal Year 2021/2022

DEPARTMENT	Footnote	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER CAPITAL	INTERNAL SERVICE	TOTAL EXPENSE	TOTAL REVENUE	NET COST
GENERAL FUND								
Administration	1	-	(102,000)	-	-	(102,000)	-	(102,000)
Non-Departmental	1,2	10,000	102,000	-	-	112,000	(1,094,810)	(982,810)
Animal Care Facility	3	-	-	-	10,248	10,248	-	10,248
Development Services	3	-	-	-	4,553	4,553	-	4,553
Engineering/Capital Projects	2, 3	(10,000)	-	-	35,753	25,753	-	25,753
Police	3	-	-	-	192,717	192,717	-	192,717
Fire	3, 4, 5	1,555,977	413,761	-	212,194	2,181,932	(983,898)	1,198,034
Public Works	3, 6	(40,000)	-	40,000	89,527	89,527	-	89,527
Parks and Recreation	3, 7	78,000	107,000	20,000	61,820	266,820	(205,000)	61,820
Library	3	-	-	-	644	644	-	644
TOTAL GENERAL FUND		\$ 1,593,977	\$ 520,761	\$ 60,000	\$ 607,455	\$ 2,782,193	\$ (2,283,708)	\$ 498,485

General Fund Amendment Footnotes

- 1 - Transfer expenditure appropriations of \$102k in Supplies & Services from the Administration Department to Non-Departmental for the lighting project on Third Avenue for the Starlight Parade under Special Events.
- 2 - Transfer expenditure appropriations of \$10k in Personnel Services from the Engineering Department to Non-Departmental for Professional Enrichment related to the Western Council of Engineers MOU agreement.
- 3 - Increase expenditure appropriations by \$608k for Internal Service costs for Fleet charges in due to increases in fuel and maintenance charges.
- 4 - Increase expenditure appropriations by \$986k for Fire Academy that is scheduled to start later this fiscal year.
- 5 - Increase revenue and expenditures appropriations by \$983,898 for Strike Team activity in FY 2022 in the Fire Department.
- 6 - Transfer expenditure appropriations of \$40k from Personnel Services in anticipated savings to Other Capital for a vehicle purchase.
- 7 - Increase revenues and expenditure appropriations by \$205k for increased recreation activity during the fiscal year.

The significant adjustments to the General Fund are described below.

- **Non-Departmental** – Increase revenue appropriations by \$1,094,810 for additional anticipated Motor Vehicle License Fee revenues.
- **Fire** – Increase expense appropriation by \$986k for the Fire Academy. Increase expense and revenue appropriations by \$983,898 for Strike Team activity.
- **Various** – Increase expense appropriation in Internal Service category by \$607,455 for additional anticipated fleet costs.

Other Funds

The following recommended adjustments are for funds outside of the General Fund. The proposed adjustments, displayed in Table 4, result in a net cost decrease by approximately \$0.7 million. A brief discussion follows the table on the significant proposed adjustments.

Table 4 - Other Funds Budget Adjustments Summary - 2nd Quarter Fiscal Year 2021/2022

	Footnote	PERSONNEL SERVICES	SUPPLIES & SERVICES	OTHER EXPENSES	OTHER CAPITAL	INTERNAL SERVICE	TOTAL EXPENSE	TOTAL REVENUE	NET COST
OTHER FUNDS									
Transportation Grants-Gas Tax	1	-	-	-	-	963	963	-	963
2018 Measure A Sales Tax	1, 2	-	-	-	28,500	13,206	41,706	-	41,706
Advanced Life Support Program	1	-	-	-	-	2,880	2,880	-	2,880
Federal Grants	3, 4, 5	(86,520)	5,601	105,450	-	-	24,531	(14,846)	9,685
State Grants	1	-	-	-	-	442	442	-	442
Environmental Services	1	-	-	-	-	1,397	1,397	-	1,397
Public Liability Trust	6	-	165,000	185,000	-	-	350,000	-	350,000
CFD 14M-B-EUC Millenia	1	-	-	-	-	479	479	-	479
Open Space District #24	7	-	1,600	-	-	-	1,600	-	1,600
Central Garage Fund	1, 8	-	917,600	-	123,500	4,189	1,045,289	(809,600)	235,689
Living Coast Discovery Center	1	-	-	-	-	1,040	1,040	-	1,040
Development Services Fund	1	-	-	-	-	9,042	9,042	-	9,042
Transport Enterprise	1, 9	-	350,000	(350,000)	-	30,497	30,497	-	30,497
Sewer Service Revenue	1	-	-	-	-	61,009	61,009	-	61,009
CV Bayfront Finance Authority	10	-	453	-	-	-	453	(453)	-
TOTAL OTHER FUNDS		\$ (86,520)	\$ 1,440,254	\$ (59,550)	\$ 152,000	\$ 125,145	\$ 1,571,329	\$ (824,899)	\$ 746,430

Other Fund Amendment Footnotes

- 1 - Increase expenditure appropriations by \$125k for Internal Service cost for Fleet charges in FY 2022 due to increase in fuel and maintenance charges to various funds.
- 2 - Increase expenditure appropriations by \$29k for Other Capital for a vehicle purchase from available 2018 Measure A Sales Tax fund balance.
- 3 - Transfer expenditure appropriations of \$86,520 from Personnel Services and \$4,084 from Supplies & Services to Other Expenses for the COPS grant in the Federal Grants
- 4 - Increase revenue and expenditure appropriations by \$14,846 for the BVP Grant in the Police Department.
- 5 - Increase expenditure appropriations by \$9,685 in Supplies & Services for software costs from the Police Department Coverdell Program grant from available fund balance.
- 6 - Increase expenditure appropriations by \$350k for the Public Liability Trust fund from available fund balance due to higher than budgeted costs.
- 7 - Increase expenditure appropriations by \$1,600 from available fund balance due to emergency tree removal.
- 8 - Increase expenditure appropriations by \$1,045,289, and revenue appropriations from charges to other funds by \$810k for increased fuel and maintenance costs incurred
- 9 - Transfer expenditure appropriations of \$350k from Other Expenses to Supplies & Services to align with program expenditures in the Transport program.
- 10 - Increase both revenue and expenditure appropriations by \$453 for the collection of sales tax revenues from the RV Park in FY2021 that was transferred to the Bayfront Finance Authority Fund as required by the existing DDA agreement.

The significant adjustments to the Other Funds are described below.

- **Public Liability Trust** – Increase expense appropriations by \$350,000 from available fund balance due to higher than budgeted costs.
- **Central Garage Fund** – Increase expense and revenue appropriations by \$809,600 for increased fuel and maintenance costs incurred during the fiscal year recovered via department charges. Increase expense appropriation by \$235,689 for building maintenance and equipment utilizing fund balance.

Measure P Fund Overview

In November 2016, Chula Vista voters approved Measure P, authorizing a ½ cent sales tax increase on retail sales within the City for ten years. The funding from the sales tax measure is to allow the City to make progress toward replacing and repairing failing City assets. In December 2016, the City Council adopted the expenditure plan for the Measure P funding. The expenditure plan identified critical deferred maintenance and infrastructure projects for which the Measure P funding was to be allocated toward.

The following table provides an update on the allocation and expenditures (unaudited) for the Measure P funds.

Measure P

Citywide Infrastructure, Facilities and Equipment Expenditure Plan

1/2 cent Sales Tax Revenues over 10 year period

Summary Table as of 12/31/21

Total by Major Category	10-Year Timeframe	To Date Totals	Remaining Balance
REVENUES:			
Sales Tax Revenues	\$ 223,089,835	\$ 87,758,786	\$ 135,331,049
Investment Earnings ³	\$ -	\$ 4,209,635	\$ (4,209,635)
Miscellaneous	\$ -	\$ 238,662	\$ (238,662)
Total Revenues	\$ 223,089,835	\$ 92,207,083	\$ 130,882,752
EXPENDITURES:			
Fire Stations Repairs/Replacement	\$ 26,210,449	\$ 21,122,329	\$ 5,088,120
Fire Response Vehicles	\$ 19,847,580	\$ 7,977,953	\$ 11,869,627
Fire Safety Equipment	\$ 5,197,913	\$ 792,073	\$ 4,405,840
Total Fire Services	\$ 51,255,942	\$ 29,892,356	\$ 21,363,586
Police Response Vehicles	\$ 12,951,470	\$ 5,347,754	\$ 7,603,716
Public Safety Communication Systems	\$ 8,645,689	\$ 4,152,818	\$ 4,492,871
Police Facility Repairs	\$ 2,700,656	\$ 924,364	\$ 1,776,292
Police Equipment	\$ 644,318	\$ 175,354	\$ 468,964
Total Police Services	\$ 24,942,133	\$ 10,600,291	\$ 14,341,842
Streets	\$ 22,906,310	\$ 19,917,851	\$ 2,988,459
Other Public Infrastructure	\$ 17,368,553	\$ 11,282,716	\$ 6,085,837
Sports Fields and Courts	\$ 3,345,655	\$ 784,350	\$ 2,561,305
Non-Safety Vehicles	\$ 13,191,170	\$ 6,031,974	\$ 7,159,196
Recreation and Senior Centers	\$ 21,637,071	\$ 5,689,066	\$ 15,948,005
Civic Center and South Libraries	\$ 4,781,227	\$ 1,715,369	\$ 3,065,858
Other Public Facilities	\$ 10,901,789	\$ 3,534,589	\$ 7,367,200
Traffic Signal Systems	\$ 7,000,000	\$ 588,408	\$ 6,411,592
Park Infrastructure	\$ 12,367,201	\$ 4,604,963	\$ 7,762,238
Citywide Network Replacement	\$ 2,082,334	\$ 2,082,334	\$ 0
Citywide Telecommunications	\$ 4,357,602	\$ 3,365,922	\$ 991,680
Total Infrastructure	\$ 119,938,912	\$ 59,597,542	\$ 60,341,370
Total Allocations	\$ 196,136,987	\$ 100,090,189	\$ 96,046,798

Measure A Fund Overview

In June 2018, the citizens of Chula Vista approved Measure A which enacted the ½ cent sales tax to support public safety staffing. The measure imposed a ½ cent transaction and use tax (sales tax) on retail sales within the City of Chula Vista and became effective on October 1, 2018. Concurrent with the approval of placing the

measure on the ballot, the City Council adopted an Intended Public Safety Expenditure Plan for the anticipated revenues generated from the measure. By doing so, the City Council expressed its intent to spend the sales tax revenues exclusively on the critical staffing needs of the City's police and fire departments, including necessary equipment and support provided by other City departments.

The following table provides an update on the allocation and expenditures (to date totals) for the Measure A funds.

**Table 6 - Measure A
Intended Public Safety Expenditure Plan
Phase I - Critical Needs
Summary Table as of 12/31/2021**

POLICE DEPARTMENT	FY 2022 Budget	As of 12/31/2021	Remaining Balance
REVENUES:			
Federal Revenue	250,000	55,556	194,444
Transfer In	11,489,099	3,308,460	8,180,639
Total Police Department Revenues	\$ 11,739,099	\$ 3,364,016	\$ 8,375,083
EXPENDITURES:			
Personnel Costs	8,970,682	3,361,533	5,609,149
Supplies & Services	739,956	322,510	417,446
Utilities	-	-	-
Other Expenses	452,116	124,067	328,049
Other Capital	165,000	36,130	128,870
Internal Service	31,094	13,106	17,988
Transfers Out	1,158,165	390,581	767,584
Total Police Department Expenditures	\$ 11,517,013	\$ 4,247,927	\$ 7,269,086
FIRE DEPARTMENT			
	FY 2022 Budget	As of 12/31/2021	Remaining Balance
REVENUES:			
Federal Revenue	-	-	-
Other Revenue	-	19	(19)
Transfer In	11,721,583	3,385,843	8,335,740
Total Fire Department Revenues	\$ 11,721,583	\$ 3,385,862	\$ 8,335,721
EXPENDITURES:			
Personnel Costs	6,074,817	2,447,675	3,627,142
Supplies & Services	389,431	72,373	317,058
Utilities	3,240	-	3,240
Other Expenses	452,116	124,067	328,049
Other Capital	-	63,842	(63,842)
Internal Service	38,191	4,505	33,686
Transfers Out	852,427	209,240	643,187
Total Fire Department Expenditures	\$ 7,810,222	\$ 2,921,702	\$ 4,888,520
Total Measure A Revenues	\$ 23,460,682	\$ 6,749,878	\$ 16,710,804
Total Measure A Expenditures	\$ 19,327,235	\$ 7,169,629	\$ 12,157,606

DECISION-MAKER CONFLICT

Staff has reviewed the decision contemplated by this action and has determined that it is not site-specific and consequently, the real property holdings of the City Council members do not create a disqualifying real property-related financial conflict of interest under the Political Reform Act (Cal. Gov't Code § 87100, *et seq.*).

Staff is not independently aware, and has not been informed by any City Council member, of any other fact that may constitute a basis for a decision-maker conflict of interest in this matter.

CURRENT-YEAR FISCAL IMPACT

The Second Quarter Monitoring Report presents updates to revenue and expenditure projections as of December 31, 2021. As a result of the revised projected revenues and expenditures within this report, the overall General Fund expenditures are projected to exceed projected revenues by approximately \$0.2 million. Staff will continue to monitor actual revenue receipts and expenditures to determine if any budget adjustments will be needed in the future.

Across the non-General Fund funds, multiple actions are recommended for the second quarter, leading to a net decrease in costs of approximately \$0.7 million to non-General Fund accounts.

ONGOING FISCAL IMPACT

There is no ongoing fiscal impact related to this action for the General Fund.

ATTACHMENTS

1. FY2022 Second Quarter Financial Report

Staff Contact: Sarah Schoen, Finance Director and Ed Prendell, Budget & Analysis Manager