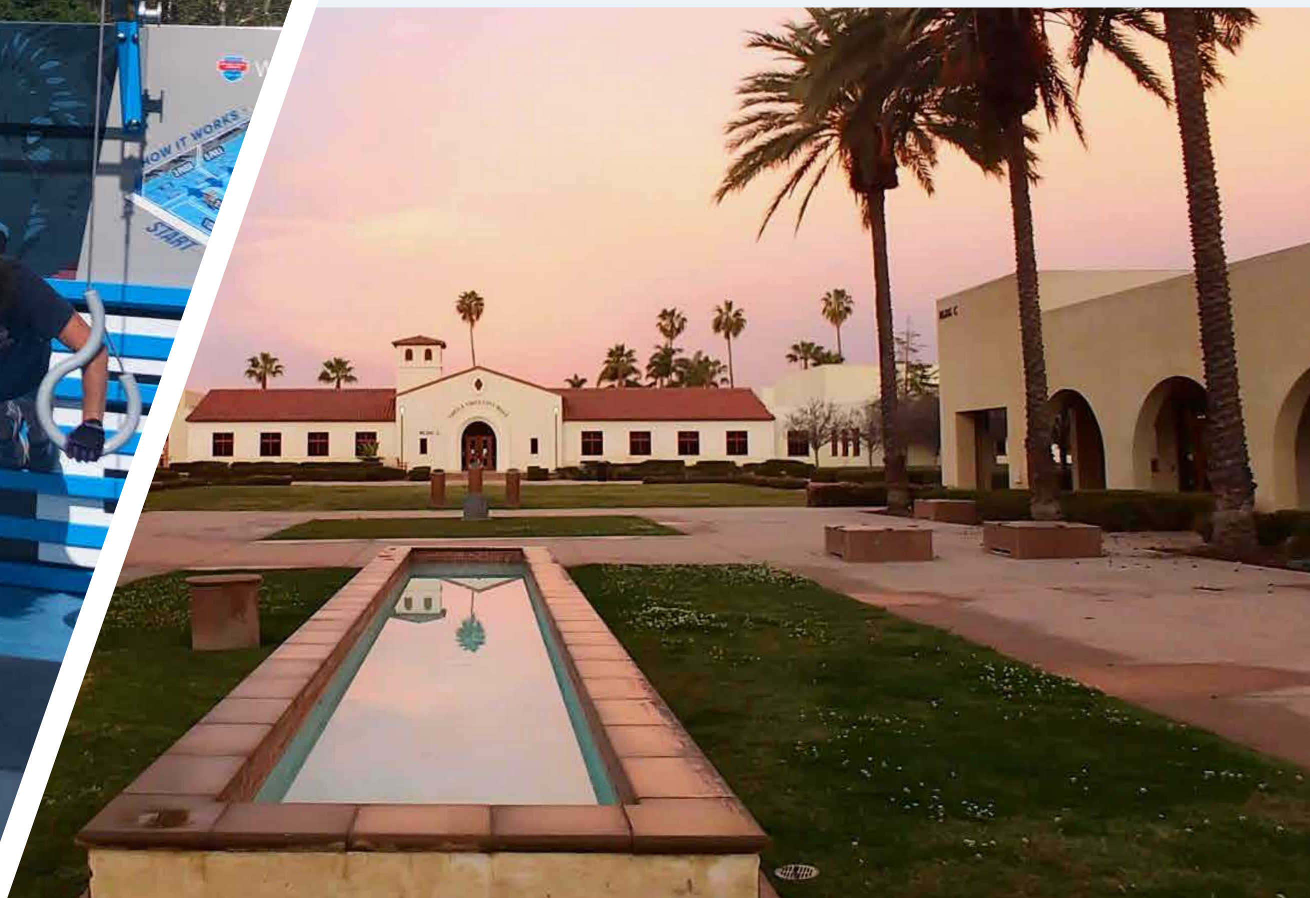
CITY OF
CHULA VISTA

General Fund
Long-term Financial Plan



FISCAL YEARS **2024 - 2033**

EXECUTIVE SUMMARY

The City of Chula Vista Fiscal Years 2024 – 2033 General Fund Long-Term Financial Plan (LTFP) serves as a long-range fiscal planning tool to identify financial trends, project budgetary surpluses or shortfalls, and encourage discussion to proactively address the City's long-range needs. The LTFP will also serve as a guideline for the development of the Fiscal Year (FY) 2024 General Fund budget.

The goal of the LTFP is to assess the City's ability over the term of the plan to:

- Maintain current or expand service levels;
- Preserve the City's long-term fiscal health; and
- Strategically maintain the City's reserve funds to meet the City's reserve policies thresholds.

The LTFP only addresses the City's General Fund. The General Fund serves as the principal pool of revenues and expenditures that finance the City's core, day-to-day operating expenses. Information related to the City's non-General Fund funds can be found on the City's website within the FY 2023 Adopted Budget: https://www.chulavistaca.gov/departments/finance/budget-information

The LTFP focuses on baseline revenues and expenditures that are essential for the City to achieve the City's strategic goals[1] over the next ten years. These goals include:

- Providing the highest level of municipal services based upon available resources;
- Maintaining safe and appealing neighborhoods;
- Providing funding for City infrastructure; and
- Continuing to expand the City's economic development and financial base.

It is important to emphasize that *the **LTFP is not a budget***. The LTFP does not make expenditure decisions or revise service levels but rather highlights the need to prioritize the allocation of City resources to ensure the continuation of core City services. The purpose of the plan is to provide the City Council, key stakeholders, and the public an overview of the City's fiscal health based on various financial and service level assumptions over the next ten years, and also allow for the discussion of necessary steps to be initiated during the development and implementation of future budgets. The LTFP is intended to look beyond the annual budget cycle, serving as a planning tool to bring a long-term perspective to the budget process. Should projected expenditures exceed projected revenues in any given year, the City Manager will identify steps to mitigate the shortfalls prior to presenting a balanced budget to the City Council for consideration during the annual budget development process.

[1] See the Strategic Plan on the City's Budget webpage: https://www.chulavistaca.gov/departments/finance/budget-information

REPORT OUTLINE

The LTFP report includes a brief overview of the current economic environment and information on potential factors that could impact the City's fiscal position in the near-term and long-term. Following the economic updates, information will be provided on the major revenue/expenditure categories shown within the LTFP. This information will provide brief descriptions of the revenues/expenditures, assumptions, and highlights of certain factors that could impact the revenues/expenditure projections.

Financial projections for the term of the LTFP will be presented following the highlighted revenues and expenditures. Significant results of the financial projections will be noted following the financial table. Next, the LTFP presents potential budget mitigation actions for discussion. No single, specific action is identified as a solution to resolving the City's projected shortfalls. Based upon discussion and input from the City Council and the public, City staff can provide additional information and develop recommendations related to addressing future budget shortfalls.

DEPARTMENT POLICY

The LFTP report follows guidance from the City's Finance Department's *100-01 General Financial Policy* in the following areas:

Budget Development
- Identify the resources required to fund identified programs and activities, and enable accomplishment of program objectives.
- Maintain a balanced operating budget. Operating revenues will fully cover operating expenditures, including debt service, each fiscal year.
- Track revenues and expenditures on an on-going basis, and attempt to anticipate future trends beyond the current budget cycle in order to maintain a balanced budget.
- Utilize a ten-year financial plan and a long-term financial forecast model to promote orderly spending patterns, engage in long-range planning, and reduce the time and resources spent preparing annual budgets.

Revenue Management
- Endeavor to maintain a diversified and stable revenue base.
- Revenue projections will be maintained for the current year and for future fiscal years, and estimates will be based on a conservative, analytical, and objective process.

Financial Constraints and Expenditure Management
- Track expenditures to evaluate trends and identify potential issues that will affect the budget.

SUMMARY OF FINANCIAL PROJECTIONS

Staff forecasts primary General Fund revenues and expenditures based on current and known conditions, historical performance, and consultation from subject matter experts. Based on projections from the LTFP, overall General Fund revenues are anticipated to increase from FY 2023 to FY 2027. However, General Fund revenues are anticipated to decrease in FY 2028 from prior years due to the scheduled conclusion of the voter approved Measure P Sales Tax.[2] FY 2027 includes a partial year of Measure P revenues and FY 2028 is the first full year of excluding Measure P revenues from the General Fund revenue totals. The projected revenues also include revenues from the Measure A Sales tax approved by Chula Vista voters in FY 2019. Revenues from Measure A continue throughout the term of the LTFP as this sales tax will remain in place until repealed by voters. General Fund revenues resume the trend of moderate increases from prior years in FY 2029.

Based on baseline projections for current service levels, ***growth in expenditures is anticipated to outpace the growth in revenues from Fiscal Year 2024 to Fiscal Year 2031***[3]. This projected long-term structural shortfall generates budget deficits for eight of the ten-year LTFP period.

As shown on the following summary table, the overall General Fund deficits are projected to fluctuate beginning in FY 2024 at approximately $2.6 million and ending in FY 2031 at approximately $4.6 million. In FY 2032 and FY 2033, the General Fund projected revenues are equal to projected expenditures.

In development of the LTFP projections, staff reviewed historical budgeted and actual figures, reviewed current data, and researched current financial trends. Based on the information collected, continued growth in revenues and expenditures is anticipated throughout the LTFP period; however, staff employed a conservative approach in developing the projections based on City policy. Uncertainty related to several key factors impacting the economy (discussed in detail later in this report) has led staff to moderate growth expectations. It should be noted that these projections do not incorporate any economic downturn during the LTFP period. Any economic downturn during the term of the LTFP would negatively impact the LFTP projections. Projections within the LTFP will be re-evaluated based upon future economic activity and available data.

The following table presents the summary financial forecast for the General Fund for FY 2024 through FY 2033. A detailed table is provided in the 10-Year Projections section of this document.

[2] Annual revenues generated from the voter-approved Measure P Sales Tax are reflected in the overall General Fund revenue totals (Ordinance No. 3371, Chula Vista Municipal Code Chapter 3.33). Revenues generated from Measure P are transferred from the General Fund into a separate Measure P Fund for monitoring and accountability.

[3] Transfers and expenditures/encumbrances (obligations) related to the Measure P and Measure A Sales tax measures equal the projected revenues each year resulting in a net zero impact to the General Fund for these items.

	Adopted FY 2023	Forecasted FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Revenues												
Major Discretionary Revenues [1]	185.5	201.5	207.7	214.5	221.3	220.7	204.0	210.6	217.5	224.6	231.9	239.5
Other Revenues [2]	63.5	60.9	53.4	51.9	52.6	53.3	54.0	54.2	54.3	55.1	55.9	56.7
New Development Revenues [3]	0.0	0.6	1.8	2.6	3.4	4.2	4.5	4.7	4.8	4.9	5.1	5.3
Total General Fund Revenues	$ 248.9	$ 263.0	$ 262.9	$ 269.0	$ 277.2	$ 278.2	$ 262.5	$ 269.6	$ 276.6	$ 284.6	$ 292.9	$ 301.5
Year-over-Year Change	0.1%	5.7%	-0.1%	2.3%	3.1%	0.3%	-5.6%	2.7%	2.6%	2.9%	2.9%	2.9%
Expenditures												
Personnel Services Expenditures	126.9	130.0	133.7	139.2	143.1	147.1	151.2	155.5	159.8	164.7	169.8	175.1
Other Expenditures [4]	122.0	133.1	127.9	128.3	130.5	125.9	105.6	108.2	111.0	113.4	111.6	114.6
New Development Expenditures [3]	0.0	0.0	3.9	6.8	8.5	9.3	10.0	10.5	10.8	11.1	11.5	11.8
Total General Fund Expenditures	$ 248.9	$ 263.1	$ 265.5	$ 274.2	$ 282.1	$ 282.3	$ 266.8	$ 274.2	$ 281.6	$ 289.2	$ 292.9	$ 301.5
Year-over-Year Change	1.4%	5.7%	0.9%	3.3%	2.9%	0.1%	-5.5%	2.8%	2.7%	2.7%	1.3%	2.9%
General Fund Surplus / (Deficit)	0.0	0.0	-2.6	-5.2	-4.9	-4.2	-4.3	-4.6	-5.0	-4.6	0.0	0.0
Surplus / (Deficit) as a % of Budget	0.0%	0.0%	-1.0%	-1.9%	-1.7%	-1.5%	-1.6%	-1.7%	-1.8%	-1.6%	0.0%	0.0%

(1) **Major Discretionary Revenues** is the total of the following budget revenue categories: Property Tax, Sales Tax, Measure P Sales Tax, Measure A Sales Tax, Property Tax in lieu of VLF (VLF), Franchise Fees, Transient Occupancy Tax (TOT), and Utility Users' Tax (UUT).

(2) **Other Revenues** is the total of the following budget revenue categories: Development Revenue, Licenses and Permits, Fines, Forfeitures & Penalties, Use of Money and Property, Other Local Taxes, Police Grants, Other Agency Revenue, Charges for Services, Interfund Reimbursements, Other Revenues - Miscellaneous, and Transfers from Other Funds.

(3) **New Development Revenues & New Development Expenditures** are for revenues and expenditures projected for the Otay Ranch Village 8 West Development, Cinematic Arts Academic Center & Library, and the Former Sears Site at Chula Vista Center Mixed-Use Development anticipated to come online during the LTFP term.

(4) **Other Expenditures** is the total of the following expenditure categories: Supplies and Services, Utilities, Other Expenses, Equipment, Internal Services, and Transfers/Debt Service.

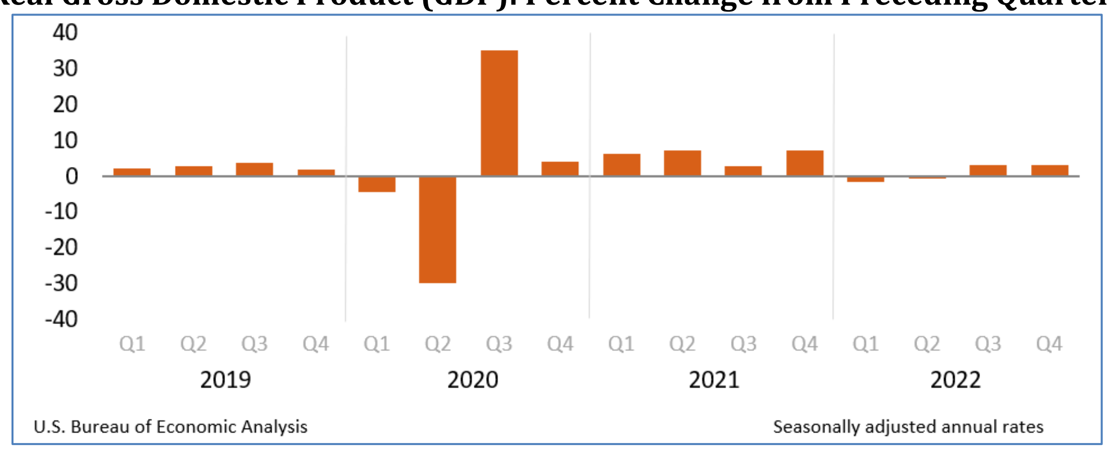
ECONOMIC OVERVIEW

Nearly three years have passed since the onset of the COVID-19 pandemic which led to global health and economic crises that continue to impact supply chains, prices, and employment today. Through recovery funds provided by the federal government from the CARES and American Rescue Plan Acts, and other localized efforts, cities like Chula Vista have demonstrated their resiliency and fiscal leadership in responding to COVID-19 and a myriad of challenges such as affordable housing and infrastructure. While heavily impacted industries such as trade and tourism have rebounded to pre-COVID-19 conditions, uncertainties remain in regard to increased labor, materials, and energy costs. Persistent, broad inflationary pressures as well as geopolitical factors like the Russia-Ukraine conflict and COVID-19 shutdowns in China also contribute more uncertainty to our globalized economy overall. Still, the City of Chula Vista's fiscal outlook remains positive, demonstrated by the growth of the Bayfront, the University Innovation District, and business and residential communities.

Economic Growth

In the UCLA Anderson Forecast from December 2022[4], economists studied the mixed signals throughout the economy with slowing growth and high inflation. Anderson concluded that a recession is nowhere near certain and would likely be short in duration and depth across sectors. Tellingly, gross domestic product (GDP), a metric for estimating the size of a country's economy, declined in the first quarters of 2022 but has increased in the last two quarters of 2022. Several promising signs for avoiding a recession include robust employment growth, easing of supply constraints, and consumer confidence. However, inflation remains persistently high and home constructions and sale prices are declining.

Real Gross Domestic Product (GDP): Percent Change from Preceding Quarter[5]



The above chart from the US Bureau of Economic Analysis displays recent quarterly results, with a 1.6% reduction of GDP (economic contraction) in the first quarter of calendar year 2022, a 0.6% reduction of GDP in the second quarter of calendar year 2022, 3.2% increases in the third quarter, and a 2.9% increase in the fourth quarter. Positive growth from quarter-to-quarter decreases concerns that a recession is imminent.

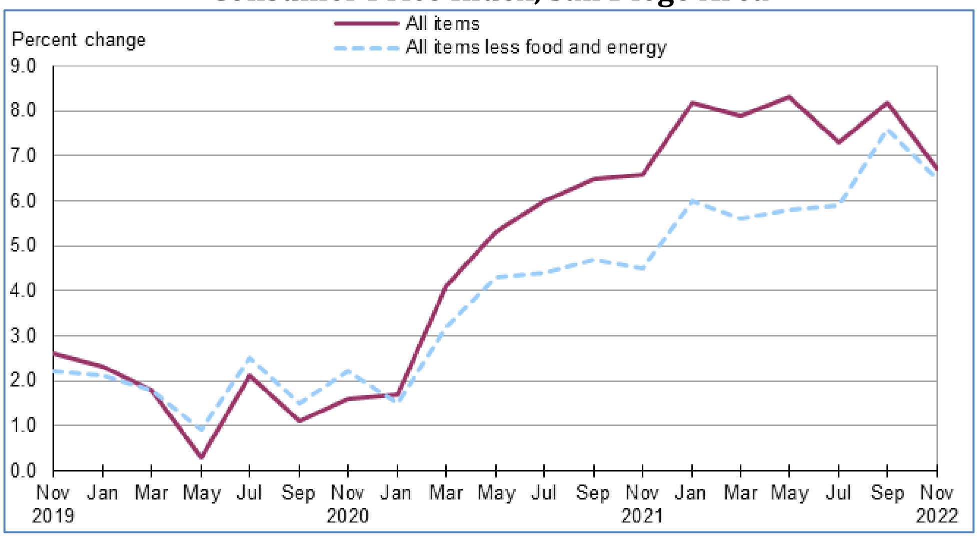
[4] UCLA Anderson Forecast. December 2022 Economic Outlook. Accessed 21 Dec 2022 at: https://www.anderson.ucla.edu/about/centers/ucla-anderson-forecast/events/december-2022-economic-outlook

[5] Bureau of Economic Analysis. Gross Domestic Product, Fourth Quarter and Year 2022 (Advance Estimate). Accessed 29 Jan 2023 at: https://www.bea.gov/news/2023/gross-domestic-product-fourth-quarter-and-year-2022-advance-estimate

Economic Indicators

While the economy is recovering and consumer confidence is increasingly positive, there are concerns related to the future growth of the economy for various reasons. Two key indicators staff will continue to monitor as important measures to the City's financial projections are inflation (measured by the local Consumer Price Index; see below) and housing activity. Inflation is a measure of the increase for the cost of goods and services, which impacts growth of the City's largest revenue source, sales tax revenues, as well as other revenue categories. Housing activity impacts property tax revenue growth, to a degree. Property Tax is currently the City's second largest revenue source.

Consumer Price Index, San Diego Area



Source: US Bureau of Labor Statistics (November 2022)[6]

[6] US Bureau of Labor Statistics. Consumer Price Index, San Diego Area — November 2022. Accessed 31 Jan 2023 at: https://www.bls.gov/regions/west/news-release/consumerpriceindex_sandiego.htm

KEY ASSUMPTIONS

The following key assumptions were incorporated into the LTFP financial projections.

Baseline

- The LTFP utilizes the FY 2023 Adopted Budget as the basis for future year forecasted revenues and expenditures, with updates from the FY 2023 Revised Budget and current trend projections.
- Future year forecasted figures are adjusted with anticipated growth rates and other inputs based on the FY 2023 Revised Budget, economic conditions, local development activity, one-time revenues and expenditures, and other factors.

Staffing

- The LTFP maintains current staffing and program levels throughout the term of the plan. No new staffing was included in the projections except for necessary staffing for new facilities becoming operational within the Plan period. The projected expenditures for the additional staff for the new Otay Ranch Village 8 West and Bayfront Fire Stations are included in the New Development Expenditures category as these positions will be necessary to operate the new facilities accommodating City growth.

New Revenues

- No projections or assumptions are included related to future ballot measures.

Healthcare Costs

- The City participates in ongoing discussions with the City's labor groups to manage affordability, while maximizing options for City employees. Due to a constantly changing healthcare environment at the local, state, and national levels, monitoring costs, and exploring alternative cafeteria benefit designs is recommended.

Debt Issuances for Capital Projects

- The LTFP does not include any future debt issuances for capital projects.

Retirement

- Projected normal costs for the annual cost of service accrual are included. As a result of the issuance of pension obligation bonds (POB) in February 2021, the LTFP no longer includes the projected Unfunded Actuarial Liability (UAL) expense for the period of the LTFP. The Section 115 Trust is available to pay future UAL costs that may arise in subsequent fiscal years.

Pension Obligation Bonds & Pension Reserve Fund

- Debt service for the 2021 Pension Obligations Bonds during the LTFP period is included in the Transfers/Debt Service expenditure category.
- Consistent with goals of the Pension Reserve, City Council Policy (220-09), contributions to the Pension Reserve Fund's IRS Section 115 Trust are scheduled throughout the ten-year period of the LTFP.

New Development

The City generally expects to collect additional revenues and expend additional resources as the City grows and develops new residences and businesses. The General Fund benefits from the additional revenues and also funds a portion of the costs associated with new development based on available resources, policy goals, development agreements and other factors. Staff included several key new development factors in the LTFP based on planned commitments, project status, contractual obligations/terms and General Fund impact. The LTFP was developed based on information available and known at the time of the preparation of the report.

- **Otay Ranch Village 8 West SPA (Sectional Planning Area)** is currently being developed by HomeFed and will include over 2,300 new residential units at completion. A new fire station and expanded City services are anticipated in the next fiscal year. Costs for operating the project's neighborhood parks will be borne solely by the developer. The LTFP includes projected City revenues as well as expenditures for Otay Ranch Village 8 West starting in FY 2024 and through the term of the LTFP as projected by a fiscal impact analysis from the City's Finance and Development Services Departments. These figures are estimates; staff will update the LTFP when additional information is made available.

Figure 1 Otay Ranch Village 8 West

- **Otay Ranch Village 8 West Fire Station & Bayfront Fire Station:** In accordance with the City's Master Fire Facility Master Plan to address City growth and Fire Department facilities and service needs, operating costs for two additional fire stations are included in the Plan. The Otay Ranch Village 8 West Fire Station is assumed to be operational in Fall 2023, consisting of one engine company and a temporary facility. Permanent facility costs are anticipated to be financed from the Public Facilities Development Impact Fees ("PFDIF") Fund. The Bayfront Fire Station is assumed to be operational in late 2024, with two engine companies. A portion of operating costs (73.6%) will be funded by Bayfront Project revenues. Facilities costs will be jointly funded by the PFDIF and one-time General Fund monies.

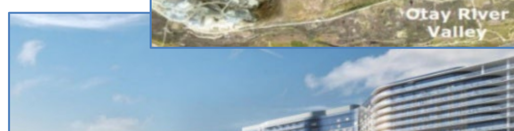


Figure 2 Gaylord Bayfront Convention Center

- **Cinematic Arts Academic Center & Library:** The City of Chula Vista expects to break ground on an $89 million, 168,000-square-foot Cinematic Arts Academic Center & Library project in 2023, the City's first new library built since 1995. The library will be located in the underserved area of east Chula Vista, which has experienced significant population growth in recent years, and aims to meet resident, industry and academic needs. The Academic Center will be home to San Diego State University's (SDSU) brand new, state-of-the-art Television, Film and New Media Studios (TFNMS). This partnership with SDSU will realize the shared vision of developing a multi-institutional university and innovation district in

Figure 3 Cinematics Arts Academic Center & Library

Chula Vista. This project facility is funded partially by a $30 million grant from the California State Library Targeted State Grant Program. The Plan currently includes an estimate for operating costs for the Cinematic Arts Academic Center & Library in East Chula Vista starting in FY 2025. Staff will update the Plan with additional information on revenue and expenditures for this facility as it becomes available.

- **Former Sears Site at Chula Vista Center Mixed-Use Development:** Brookfield Properties has proposed to develop 244 townhomes and future commercials uses at the former Sears building and Auto Center at the Chula Vista Center. As the City's Planning Commission recently approved the project for design review as part of the City's Urban Core Specific Plan area, this project status is advanced for inclusion in the LTFP. A Fiscal Impact Analysis prepared for the project compares the costs of public services associated with the subject development against the expected revenues, such as additional property tax and sales tax generated at buildout. Projected revenues are reported under the New Development Revenues line-item and projected expenditures are reported under the New Development Expenditures line-item through the term of the Plan.

MAJOR REVENUES AND EXPENDITURES

The following contexts and assumptions were used in the preparation of the ten-year projections of General Fund revenues and expenditures.

REVENUES

The City's major revenue sources include: **Property Tax, Sales Tax, Measure P Sales Tax, Measure A Sales Tax, Property Tax in lieu of VLF, Franchise Fees, Transient Occupancy Tax (TOT), and Utility Users' Tax (UUT)**. The listed revenues account for approximately $201.5 million, or 76.6%, of the City's General Fund projected revenues for FY 2023. These revenues are categorized as general revenues, or "**discretionary revenues**," broadly defined as revenues that are generated not by any given government activity, but by general or specific taxing authority, such as a local sales tax measure (Measure A and Measure P) or state law (Property Tax). Discretionary funds are generally not restricted as to use, and fund the majority of the City's core, day-to-day and long-term operating expenses. The following are brief descriptions of the listed major General Fund revenue sources.

Property Tax

Property tax revenue is generated from a 1% ad valorem tax on "real property" (land, buildings, and other permanent structures/improvements), based upon the assessed value of the property within the City as certified by the County of San Diego Assessor. Property tax revenue is the City's most stable revenue source and is generated from both residential and commercial property. For FY 2023, property tax revenue is projected to total $44.4 million, a $3.5 million increase from the FY 2023 Adopted Budget based on updates from the County property tax roll.

Property Tax Ten-Year Forecast ($ In Millions)

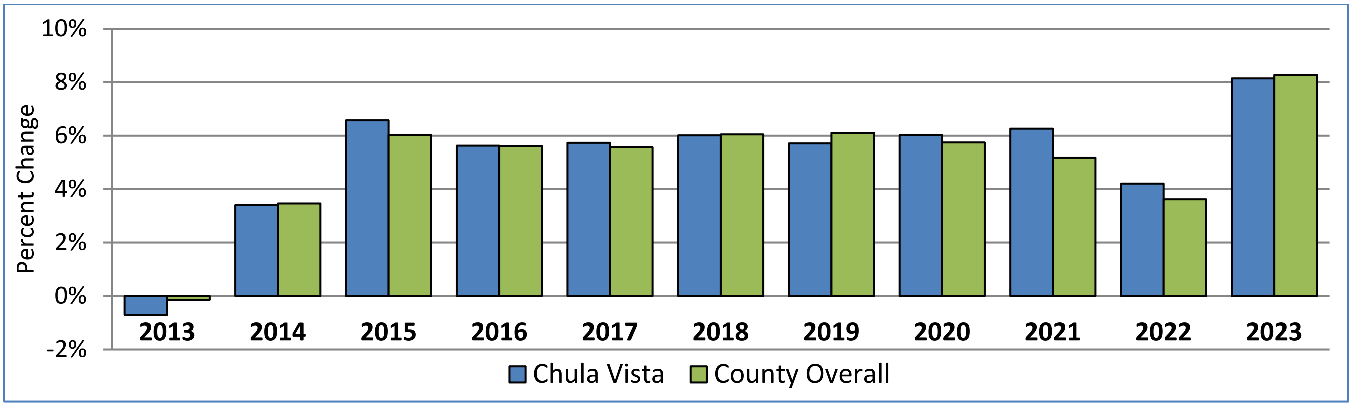
	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Projection	$ 40.9	$ 44.4	$ 46.5	$ 48.4	$ 50.3	$ 52.3	$ 54.4	$ 56.5	$ 58.7	$ 61.1	$ 63.5	$ 66.0

The LTFP includes a five percent (5.0%) increase in property tax revenues in FY 2024 and a four percent (4.0%) increase throughout the remaining term of the LTFP based on expected moderate growth in property values. Although property tax growth is limited by Propositions 13 and 15 (tax rate of 1% of assessed property value with a 2% annual increase cap), an increase in property sales will grow property tax revenues as property values are re-assessed to market rate. In addition to the increase in property tax base from property sales, the City is continuing to see new residential and commercial development resulting in additional property tax.

The recovery of the economy and labor market from the recessionary impacts of COVID-19 in 2020 and 2021 are anticipated to support continued growth in FY 2023, especially in residential property revenues. However, rising mortgage interest rates and sales declines may temper the growth in the near short-term, with delayed impacts based on the County property tax roll annual process.

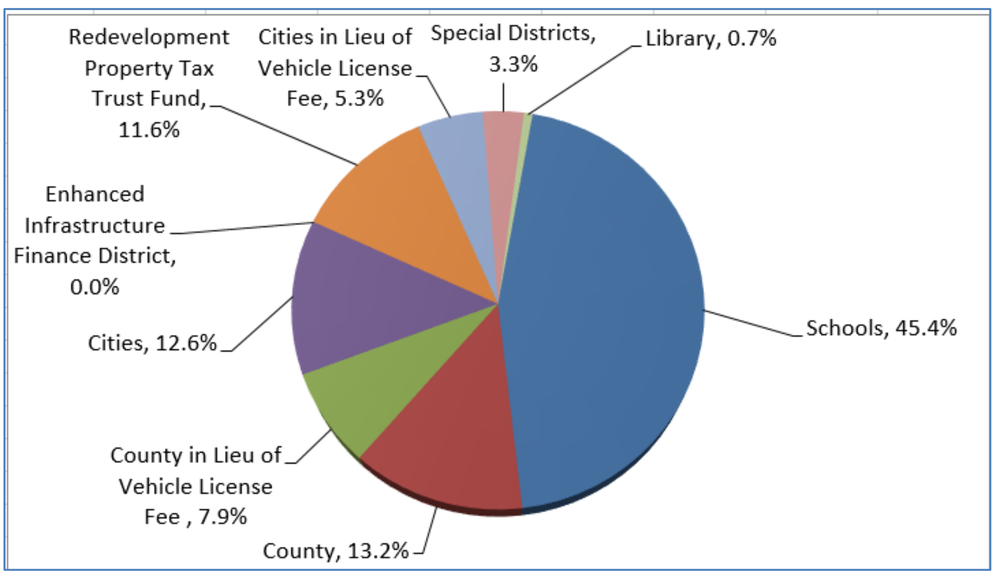
As shown in the chart below, the City's assessed value has increased steadily since FY 2014, and this positive trend is anticipated to continue into FY 2024. This positive trend is reflected in the LTFP's estimated property tax revenue.

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



The chart below shows the distribution of property tax dollars by the County amongst jurisdictions.

Property Tax Dollar Distribution by Jurisdiction
Fiscal Year 2022



Additionally, with the dissolution of the City of Chula Vista's Redevelopment Agency (RDA) in FY 2012 via Assembly Bill 26, and the subsequent winddown of the Agency's activities via the City's Successor Agency, unallocated property tax increment (Redevelopment Property Tax Trust Fund) returns to the City in the form of additional property tax revenues. These redevelopment revenues are deemed "residual revenues" and amounted to $2.1 million in FY 2022. Residual revenues are expected to slowly increase as the Successor Agency gradually pays off its obligations, providing a potential supplement to the City's existing General Fund tax base for years to come.

Property Tax in lieu of Vehicle License Fee (VLF)

VLF revenues are generated from vehicle license fees paid with vehicle registrations to the State of California Department of Motor Vehicles; fees are then allocated back to cities and counties. With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties were substantially changed, permanently reducing the VLF tax and increasing transfers of property tax funds from the State in lieu of VLF. Since 2006, the majority of VLF revenues for each city grew essentially in proportion to the growth in the change in gross property assessed valuation. Due to the new formula by the State, ninety-six (96) percent of the City's VLF revenues fluctuated with changes in assessed property values within the City. As such, this revenue category reflects a five percent (5.0%) increase in property tax revenues in FY 2024 and four percent (4.0%) increase throughout the remaining term of the LTFP based on expected moderate growth in property values, similar to the Property Tax Revenue category. The City's VLF revenue is projected to total $28.0 million for FY 2023.

Property Tax in lieu of Motor Vehicle License Fees (MVLF) Ten-Year Forecast ($ In Millions)

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Projection	$ 26.9	$ 28.0	$ 29.5	$ 30.7	$ 31.9	$ 33.2	$ 34.5	$ 35.9	$ 37.3	$ 38.8	$ 40.4	$ 42.0

Bradley-Burns Uniform Local Sales and Use Tax (Sales Tax)

Sales tax revenue is generated from a percentage tax imposed on the sale of retail goods and services that occur within the City of Chula Vista. The total citywide sales tax rate is 8.75%, of which the City's General Fund receives 1.0% of all the sales transactions within the City. Based on increasing consumer confidence and inflationary impacts in the near-term The General Fund sales tax revenue is anticipated to be approximately $48.0 million in FY 2023, which represents the largest revenue source for the City's General Fund.

Sales Tax Ten-Year Forecast ($ In Millions)

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Projection	$ 42.3	$ 48.0	$ 49.0	$ 50.4	$ 52.0	$ 53.5	$ 55.1	$ 56.8	$ 58.5	$ 60.2	$ 62.0	$ 63.9

The LTFP assumes a two percent (2.0%) growth factor for FY 2024 as compared to the FY 2023 sales tax projection. While FY 2023 is trending significantly above budget it expected that this growth will slow in FY 2024. A conservative three percent (3.0%) growth factor for Sales Tax revenues is utilized over the remainder term of the plan. Inflation may impact this revenue source further as rising prices would generate additional revenue; however, increased prices may also decrease sales of goods and services in the long-term. Staff engages an outside consultant to assist in the monitoring and projections for all sales tax related revenues and will monitor this revenue source for updates to the Plan.

In addition to the Bradly Burns Sales Tax, voters approved the Measure P Sales Tax Measure in 2016 which established a temporary ten-year ½ percent sales tax rate upon sales within the City (which is included in the total 8.75% tax rate)

In June 2018, the Measure A Sales Tax was approved by Chula Vista voters. The Measure A Sales Tax is a ½ percent sales tax on goods and services sold within the city to support local public safety needs. This increased the overall sales tax rate to 8.75% as of October 1, 2018, and the ½ percent sales tax will continue until repealed by voters.

City of Chula Vista Sales Tax Rate Breakdown

State General Fund (includes K-12/Community Colleges)	3.94%
Public Safety (Prop 172)	0.50%
County Realignment (Mental Health/Welfare/Public Safety)	1.56%
Countywide Transportation Fund	0.25%
San Diego County Regional Transportation Commission (TransNet)	0.50%
State and County Subtotal	**6.75%**
Local Jurisdiction (City or County of place sale/use) *(City Share)*	1.00%
City Transaction Tax (Measure P)	0.50%
City Transaction Tax (Measure A)	0.50%
City Subtotal	**2.00%**
Total Sales Tax Rate – Chula Vista [1]	**8.75%**

[1] Total sales tax rates will vary by City due to local sales tax initiatives.

Staff continues to monitor areas impacting sales tax revenues, such as the significant shift to online shopping during the COVID-19 shelter-in-place order, and passage of State Assembly Bill 147 for the collection and remittance of sales tax by out-of-state retailers related to the *South Dakota v. Wayfair, Inc.* Supreme Court decision in 2018.

Measure P Sales Tax

The Measure P Sales Tax revenue is restricted for supporting repair and replacement of City infrastructure. While the revenue generated from the Measure P Sales tax is collected in the General Fund, the General Fund transfers this revenue to the Measure P Sales Tax Fund for accountability and transparency in the usage of these funds. These actions result in an overall net zero impact to the General Fund. Based on increasing consumer confidence and inflationary impacts in the near-term, Measure P Sales Tax revenues are anticipated to total approximately $27.7 million in FY 2023. Revenues are shown as gross revenues; administration costs to the California Department of Tax and Fee Administration are included in the Other Expenses line of the Plan. The LTFP assumes a two percent (2.0%) growth factor for FY 2024 as compared to the FY 2023 projected revenues. While FY 2023 is trending significantly above budget it expected that this growth will slow in FY 2024. A conservative three percent (3.0%) growth factor for Measure P Sales Tax revenues is utilized over the remainder term of the plan, similar to the Sales Tax Revenue category.

Measure P Sales Tax Ten-Year Forecast ($ In Millions)	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	2.0%	3.0%	3.0%	3.0%	-	-	-	-	-	-
Projection	$ 25.9	$ 27.7	$ 28.2	$ 29.1	$ 29.9	$ 23.1	$ -	$ -	$ -	$ -	$ -	$ -

* Measure P Sales Tax collection is scheduled to end on March 31, 2027

Measure A Sales Tax

The Measure A Sales Tax revenue is restricted for supporting the public safety needs of the City. While revenue is collected and tracked within the General Fund, the General Fund transfers this revenue to the Measure A Sales Tax Fund for accountability and transparency in the usage of these funds. Separate accounts (one for the Fire department and one for the Police department) were established to support the monitoring and allocation of these funds. These actions result in an overall net zero impact to the General Fund. Based on increasing consumer confidence and inflationary impacts in the near-term, Measure A sales tax revenues are anticipated to total approximately $27.7 million in FY 2023. Revenues are shown as gross revenues; administration costs to the California Department of Tax and Fee Administration are included in the Other Expenses line of the Plan.

Measure A Sales Tax Ten-Year Forecast ($ In Millions)	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Projection	$ 25.9	$ 27.7	$ 28.3	$ 29.1	$ 30.0	$ 30.9	$ 31.8	$ 32.8	$ 33.7	$ 34.7	$ 35.8	$ 36.9

Based on increasing consumer confidence and inflationary impacts in the near-term, the LTFP assumes a two percent (2.0%) growth factor for FY 2024, which is also in line with recent years' growth trend. A conservative three percent (3.0%) growth factor for Sales Tax revenues is utilized over the remainder term of the plan, similar to the Sales Tax Revenue category.

Franchise Fees

Franchise fees are revenue generated from agreements with private utility companies in exchange for use of the City's rights-of-way. Franchise fees are collected from three primary sources: San Diego Gas & Electric (2% on gas and 1.25% on electricity), Republic Services trash collection franchises (20% fee), and AT&T and Cox Communications cable franchises (5% fee).

A rate increase effective July 1, 2022, for trash service related to Senate Bill 1383 for organic waste recycling has been factored into the LTFP. For FY 2023, total franchise fee revenue is projected to be $14.5 million. The LTFP anticipates these revenues, in the aggregate, to grow slightly over the term of the plan, at a rate of two percent (2.0%).

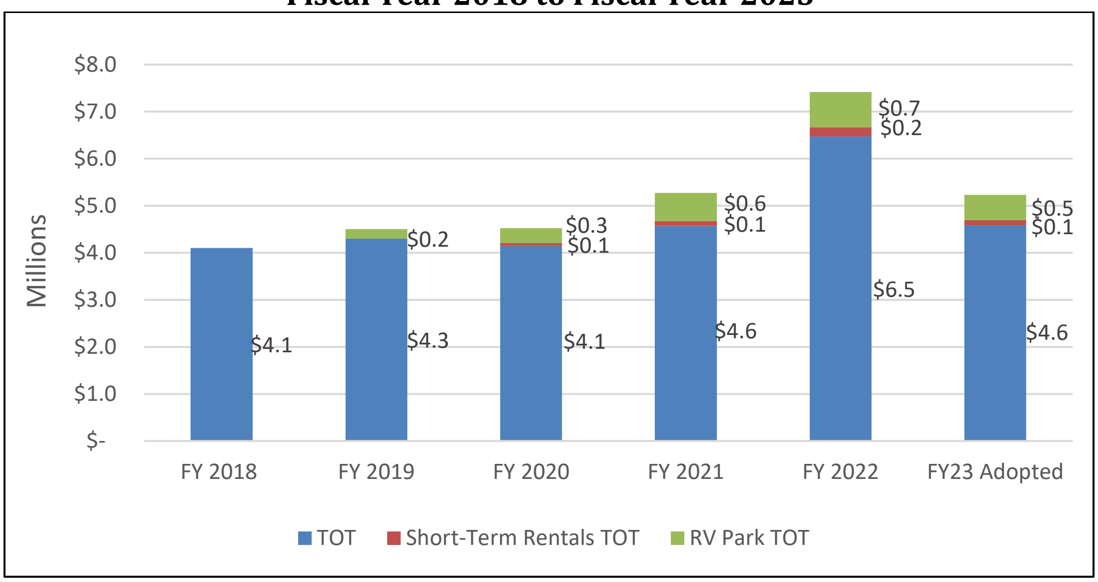
Franchise Fees Ten-Year Forecast ($ In Millions)	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Projection	$ 14.5	$ 14.5	$ 14.8	$ 15.1	$ 15.4	$ 15.7	$ 16.0	$ 16.3	$ 16.7	$ 17.0	$ 17.3	$ 17.7

Transient Occupancy Tax (TOT)
TOT is a tax imposed on occupants of hotel and motel rooms and short-term rentals within the City. The current TOT tax rate in the City is 10%. TOT revenues are projected to generate $7.4 million in FY 2023. Major economic drivers for TOT revenue include room rates, average occupancy rates, and seasonal and non-seasonal tourism. The City of Chula Vista has experienced strong growth in TOT in recent years with a string of new hotel developments on both the west and eastern portions of the City as well a major expansion of the short-term rental compliance program.

During the height of the COVID-19 pandemic, TOT revenues dropped 3.6% in FY 2021 from FY 2020 TOT revenues. In FY 2022, TOT revenues increased by nearly 42% from FY 2021, and 50% from pre-pandemic levels (FY 2019). Staff anticipates this dramatic increase in TOT revenues is partially due to pent-up travel demand following the business closures related to the pandemic which will likely not be sustained in the long-term. Staff will monitor this revenue category closely for updates to the LTFP, particularly if a recession were to occur as travel would likely be impacted by declines in consumer confidence and spending.

Additionally, it is important to note that the TOT revenue generated from the RV Park in the Bayfront area is transferred out from the General Fund to the Chula Vista Facilities Financing Authority.

Transient Occupancy Tax
Fiscal Year 2018 to Fiscal Year 2023



It is anticipated that TOT revenues will continue to increase as a result of new hotels being developed within the City over the next several years. Staff expects the Gaylord Pacific Resort & Convention Center project to bring renewed interest in business, recreation and other activity to the Chula Vista Bayfront and surrounding areas. As additional projects advance through the development process, staff will update the LTFP to include additional General Fund impacts.

Transient Occupancy Tax Ten-Year Forecast ($ In Millions)												
	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Projection	$ 5.2	$ 7.4	$ 7.6	$ 7.8	$ 8.0	$ 8.1	$ 8.3	$ 8.4	$ 8.6	$ 8.7	$ 8.9	$ 9.1

The LTFP projects an annual two percent (2.0%) growth rate for TOT revenues, which is anticipated to be a conservative estimate. In midyear 2024, a hotel in East Chula Vista is expected to come online and generate TOT revenues, increasing the projected TOT baseline revenues. Projections will be updated as planning and development processes advance, and new hotels begin operations.

Utility User Tax (UUT)

The City adopted its Utility Users Tax (UUT) in 1970. The City of Chula Vista imposes a UUT on the use of telecommunications (cable, telephone) at the rate of 4.75% of gross receipts. The UUT on natural gas services is $0.00919 per therm and $0.00250 per kilowatt on electricity services, which equates to approximately a 1% tax. City staff recently conducted an analysis to project revenues for each utility type; technology, consumer behavior and legislative changes have positioned this revenue category as less secure over the long-term with nearly flat growth. For FY 2023, revenues are projected to total $3.8 million, similar to FY 2022. The LTFP assumes a one-half (0.5%) percent annual increase throughout the term of the plan.

Utility Users' Tax Ten Year-Forecast ($ In Millions)												
	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Projection	$ 3.8	$ 3.8	$ 3.8	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 3.9	$ 4.0	$ 4.0	$ 4.0	$ 4.0

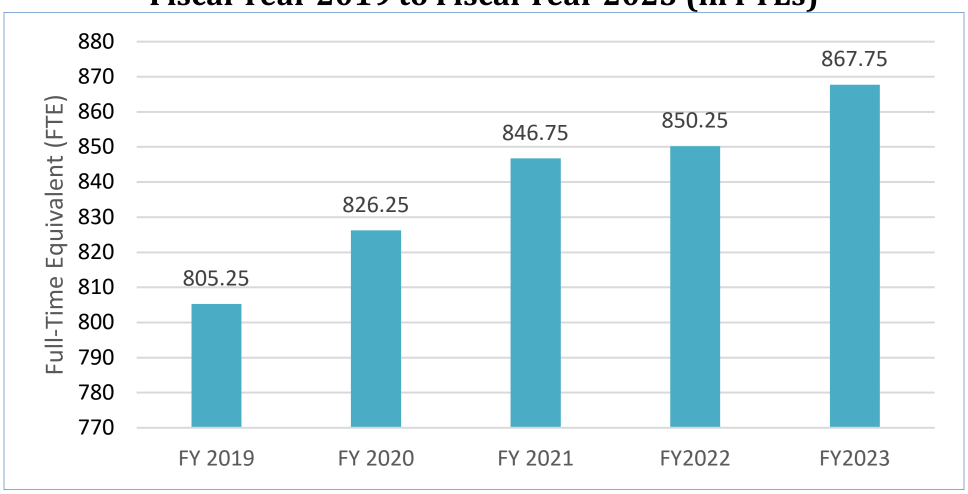
EXPENDITURES

The City's major expenditure categories include: **Personnel costs, Retirement Benefits, and Health Insurance.** The listed expense categories account for approximately $130.0 million or 49.4% of the City's General Fund projected expenditures for FY 2023. The following are brief descriptions of the listed expenditure categories.

Personnel Services (Salaries/Wages)

Since the last economic recession, the City has focused on recovering its staffing levels to support City services. For FY 2023, the total Adopted Budget General Fund staffing is 867.75 FTEs. For FY 2023, personnel costs, including salary/wages but not including retirement benefits or health insurance, were adopted at $102.6 million. Since the beginning of FY 2023, an additional 21.0 FTE (positions) have been added to the General Fund, increasing the projected FY 2023 personnel to 888.75 FTE, a 2.4% increase. This staffing level is assumed to be ongoing and extrapolated out through the remainder of the Plan as the new Personnel Services baseline budget. The projected Personnel Services costs for FY 2023 are $105.3 million, a 2.6% increase over the FY 2023 Adopted Budget.

Adopted Budget General Fund Staffing
Fiscal Year 2019 to Fiscal Year 2023 (in FTEs)



The projected salary expenses are net anticipated salary savings from the City departments. Salary savings is the amount of salary expense that a department saves when a position is vacant for a period of time or filled at a lower salary level than the originally budgeted level.

Personnel Services Expenditures Ten-Year Forecast ($ In Millions)												
	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Projection	$ 102.6	$ 105.3	$ 107.4	$ 110.6	$ 113.7	$ 116.9	$ 120.2	$ 123.6	$ 127.1	$ 130.7	$ 134.4	$ 138.2

The LTFP includes the annualized costs of negotiated salary increase approved per the current Memoranda of Understanding (MOU) with each of the City's employee groups. The MOUs vary in negotiated salary annual increases and vary in duration until they expire. Beyond the expiration of the current MOUs, the LTFP assumes wage inflation of three percent (3.0%) per year.

Health Insurance

The City currently offers qualified benefitted employees four medical plan options: Aetna Sharp Accountable Care Organization (ACO), Aetna Full Network HMO, the Aetna PPO, and Kaiser Health Maintenance Organization (HMO). For FY 2023, health insurance expenses are projected to total approximately $14.5 million. This represents an increase of $0.3 million or 2.1% from the fiscal year 2023 Adopted Budget. The expected growth rate for health care insurance costs is five percent (5.0%) through the term of the LTFP.

Health Insurance Expenditures Ten-Year Forecast
($ In Millions)

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	4.1%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Projection	$ 14.2	$ 14.5	$ 15.1	$ 15.8	$ 16.6	$ 17.4	$ 18.3	$ 19.2	$ 20.2	$ 21.2	$ 22.3	$ 23.4

Retirement Benefits

California Public Employees' Retirement System (CalPERS)

The City contracts with CalPERS retirement benefits for all full-time benefitted employees. The City has two employee retirement plans (*Miscellaneous* and *Safety*), each with three tiers of employees based upon their start date within the CalPERS system and the City of Chula Vista. The Miscellaneous plan covers all qualified City employees except those which are considered public safety employees (Fire and Police departments). The Public Safety plan covers all qualified public safety employees. CalPERS uses the percentage of service credit earned in one year (3%, 2%, etc.) and the full retirement age (60, 50, etc.) to describe their tiers for benefit rates.

Normal Costs & Unfunded Accrued Liability

The Normal Costs and unfunded accrued liability (UAL) and payment amounts are used to calculate the City's fiscal year pension contribution amounts. The City's Normal Cost to CalPERS is the required employer contribution for the annual cost of service accrual for the *upcoming* fiscal year for active employees. This is amount of money the City will need to contribute for the current fiscal year towards pension costs. For FY 2023, the required estimated employer Normal Cost contribution for the Miscellaneous plan is $4.7 million and the Public Safety plan is $7.9 million, for a total cost of $12.6 million, respectively. For FY 2023 the UAL is $694,420 and is funded by the Section 115 Trust Fund contributions.

Pension Obligation Bonds

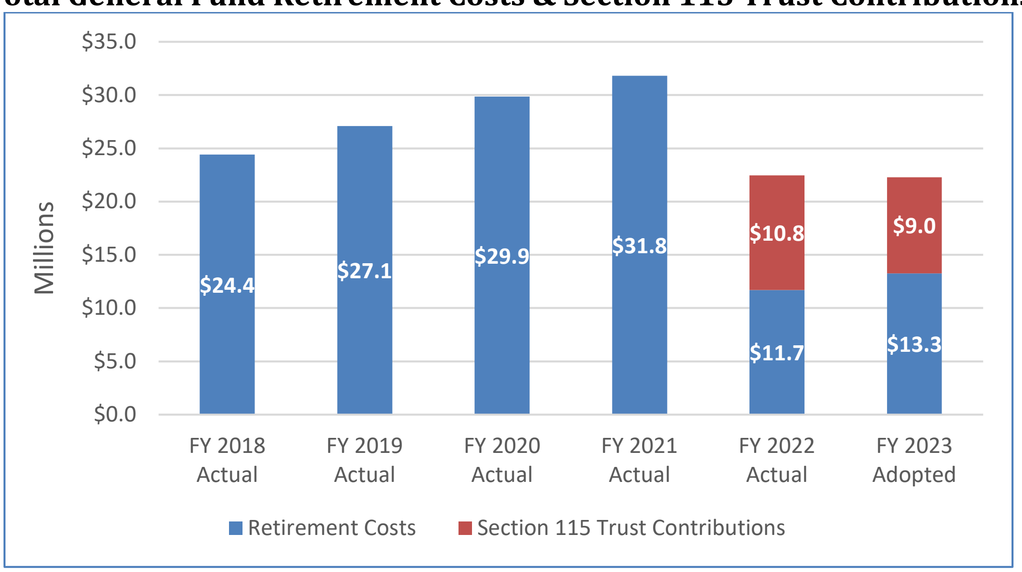
In February 2021, the City issued $350 million in pension obligation bonds (POBs) at historically low interest rates of 2.54% to refund the UAL based on the CalPERS Actuarial Valuation as of June 30, 2019. The issuance of the POBs provides the City several benefits, including: (1) generating cash flow savings to the City through historically low interest rates relative to the CalPERS discount rate assumption; (2) creating a repayment shape for the City's pension liabilities that increases more gradually than currently mandated by CalPERS; (3) enhancing budget predictability and long-term fiscal sustainability by creating a smoother repayment shape at a lower level; (4) leveraging the projected savings to adequately fund various reserves; and, (5) setting aside a portion of the future savings into a new Section 115 Trust and Bond Call Fund to mitigate future pension and OPEB cost increases and potentially pay off (redeem) the POBs prior to maturity.

The majority of these pension cost savings are being set aside in an Internal Revenue Code Section 115 pension and bond call trust fund which will help mitigate future increases from pension and other post-employment benefits costs, such as a new UAL, or provide the City the opportunity to pay off the bonds earlier. Notably, the POBs were issued with a Standard and Poor's Global Ratings extremely strong 'AA' credit rating.

The City's pension actuary consultant GovInvest recently prepared an analysis for the City that compares the funding status of the City's CalPERS plans before and after the issuance of the POBs. For the year ended June 30, 2021, the City's plans are 109.3% funded after the issuance of the POB. Prior to the POB the estimated plan funded status would have been at 78.0%. Based on the latest numbers from CalPERS it is anticipated for the year ended June 30, 2022, the City's plans will be 98.1% funded, a significant improvement from the pre-issuance estimate of 69.3% funded status had the POBs not been issued.

The following table shows the City's General Fund total retirement costs and Section 115 Trust contributions since FY 2018.

Total General Fund Retirement Costs & Section 115 Trust Contributions



CalPERS valuation reports also provide the City with a five-year projection of future employer contribution amounts that the City utilizes in making long term projections. Based on the projections within the valuation reports, the City's General Fund retirement contributions toward its normal costs are projected to increase significantly in FY 2024 followed by increases through the remainder of the LTFP period, shown in the table below.

Retirement Expenditures Ten-Year Forecast
($ In Millions)

	FY 2023 Adopted	FY 2023 Projection	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Growth Rate	-	-	14.1%	0.1%	0.7%	0.3%	0.3%	0.6%	-0.2%	2.8%	2.8%	2.8%
Projection	$ 13.3	$ 13.5	$ 15.4	$ 15.4	$ 15.5	$ 15.6	$ 15.6	$ 15.7	$ 15.7	$ 16.1	$ 16.5	$ 17.0

As a result of CalPERS recent investment performance and policy changes, a new unfunded pension liability (UAL) as well as increasing normal pension costs may result. The LTFP will be updated to include the anticipated impacts of this change as CalPERS valuation reports are released.

Part-Time Employees Retirement Benefits
Part-time employees receive retirement benefits through Public Agency Retirement System (PARS). PARS is an alternative to Social Security for Part-Time, Seasonal, and Temporary employees. The City and employees both currently contribute 3.75% of salary towards the PARS contribution amount of 7.5%.

CAPITAL EXPENDITURES

To identify the City's infrastructure and capital needs, the City developed an asset management plan. The asset management plan inventoried all City infrastructure and property assets, conducted condition assessments on each asset, prioritized the assets by risk level and importance, and performed a life cycle cost assessment. This information allowed the City to develop a cost estimate for the capital improvement program. The asset management plan sorted the City assets into three categories: red (high risk), yellow (medium risk), and green (low risk). This allows for the City to make necessary decisions on each asset (repair, replace, renovate, liquidate, shut down, relocate, etc.), and to budget available resources towards the repair and replacement of these assets.

In light of the projected costs to repair and replace the City's capital assets, the City Council placed a temporary ten-year ½ percent sales tax measure (Measure P) on the November 2016 ballot to address the high priority capital needs. In November 2016, Chula Vista voters approved Measure P. The sales tax was projected to generate $178 million in additional revenue over the ten-year period. To guide the expenditure of these revenues, the City developed the Intended Infrastructure, Facilities and Equipment Expenditure Plan (IFEEP) based on information from the City's asset management plan. As the Measure P Sales Tax has a limited term, the IFEEP focuses on critical one-time items to address deferred maintenance and improve the safety of the City's infrastructure. As the IFEEP focuses on one-time allocations, any additional operating costs for new or improved facilities, such as fire stations, will need to have an alternative funding source. Examples of ongoing operational costs include additional staff or increased utility costs.

The LTFP includes the Measure P revenues as General Fund revenues. These revenues are paired with a corresponding transfer out of the General Fund to the Measure P fund. The transfer of the funds provides for accurate monitoring of the allocation and expenditure of these funds to ensure compliance with the original intent of the sales tax measure. The corresponding transfer results in a net zero impact to the General Fund. The LTFP includes minimal capital expenditures beyond those anticipated to be funded through Measure P funding. Information on Measure P allocations and projects can be found on the City's website: https://www.chulavistaca.gov/departments/engineering.

General Fund alternative funding sources, such as grants and transportation funds, support the City's capital program. However, as the LTFP only addresses the General Fund, these resources and expenditures are not included in this report. Additional information related to the City's capital program and funding sources can be found on the City' website: https://www.chulavistaca.gov/departments/public-works/projects.

OUTSTANDING CITY DEBT

The City has three outstanding Certificates of Participation (COP) that are funded with General Fund contributions, Public Facilities Development Improvement Funds (PFDIF), and/or the Residential Construction Tax Funds (RCT). The outstanding COPs consist of: the 2014 Refunding COP, the 2015 Refunding COP, and the 2016 Refunding COP. These COPs have refunded the outstanding principal of various earlier COPs which were used to fund the construction of the City's Police Facility, Civic Center improvements, Corporation Yard?, Western Chula Vista Infrastructure projects, and Nature Center Improvements.

In addition to the outstanding COPs, the City has four outstanding lease revenue bond issuances. These include: the Chula Vista Municipal Financing Authority (CVMFA) 2016 Lease Revenue Refunding Bonds (2016 Bonds); the 2017 Lease Revenue Bonds (2017 Bonds); and the CVMFA Lease Revenue Bonds (New Clean Renewable Energy Bonds) Series 2017A and Series 2017B (2017A and 2017B Bonds). The 2016 Bonds refunded earlier COPs that were used to fund Civic Center and Corporation Yard improvements. The 2017 Bonds (Measure P) were issued to finance infrastructure, facilities, and equipment; and the 2017A and 2017B Bonds were issued to finance photovoltaic (solar) energy systems at various City facilities. Funding from the Measure P Sales Tax will address the annual debt service for the 2017 Bonds. It is anticipated that savings in City utility costs will exceed the annual debt service for the 2017A and 2017B bonds, resulting in a positive impact to the General Fund.

In 2021, the City issued approximately $350 million in Pension Obligation Bonds (POBs) to refund all or a portion of the UAL based on the CalPERS Actuarial Valuation as of June 30, 2019. More discussion on POBs is provided in the *Expenditures* section of this document.

While the City has several outstanding bond issuances, the General Fund's portion of the annual debt service payments is approximately $17.2 million for FY 2023. This represents approximately 6.6% of the General Fund revenues for FY 2023. Minimizing the annual General Fund debt service payments supports maintaining flexibility within the General Fund as a low percentage of the General Fund revenue is dedicated to long-term ongoing obligations.

Additional information related to the City's outstanding debt can be found on the City's website: https://www.chulavistaca.gov/departments/finance/financial-reports.

FACTORS NOT INCLUDED IN THE PLAN

Development Impacts

As new major developments are proposed in the City, each developer is required to submit a fiscal impact analysis to ensure that the City's revenues generated from the project will meet or exceed the anticipated expenditures. However, the actual timing of the impact from new development in revenues and expenditures is difficult to predict. As the development projects vary, such as new hotels or new housing, various factors influence the impact of the projects. The timing of the revenues related to new development can vary greatly depending on how fast the market can absorb the new inventory and the economic condition throughout the development process. Staff is currently working on developing an updated fiscal impact model to provide projections based on the best information available.

Economic Downturn(s)

As previously discussed, the potential for an economic downturn is plausible. However, the LTFP does not attempt to incorporate the impact of a downturn as the timing and duration of a downturn is difficult to project. While the growth projections incorporated into the LTFP are conservative, the growth factors will be re-evaluated as needed based upon future economic indicators and as data becomes available.

TEN-YEAR PROJECTIONS

The following table projects revenue and expenditure categories for the City's General Fund for Fiscal Years 2024 – 2033.

Category	Adopted FY 2023	Forecasted FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033
Revenues												
Property Taxes	40.9	44.4	46.5	48.4	50.3	52.3	54.4	56.5	58.7	61.1	63.5	66.0
Sales Tax	42.3	48.0	49.0	50.4	52.0	53.5	55.1	56.8	58.5	60.2	62.0	63.9
Measure P Sales Tax	25.9	27.7	28.2	29.1	29.9	23.1	0.0	0.0	0.0	0.0	0.0	0.0
Measure A Sales Tax	25.9	27.7	28.3	29.1	30.0	30.9	31.8	32.8	33.7	34.7	35.8	36.9
Franchise Fees	14.5	14.5	14.8	15.1	15.4	15.7	16.0	16.3	16.7	17.0	17.3	17.7
Utility User Taxes	3.8	3.8	3.8	3.9	3.9	3.9	3.9	3.9	4.0	4.0	4.0	4.0
Transient Occupancy Taxes	5.2	7.4	7.6	7.8	8.0	8.1	8.3	8.4	8.6	8.7	8.9	9.1
Property Tax in lieu of VLF	26.9	28.0	29.5	30.7	31.9	33.2	34.5	35.9	37.3	38.8	40.4	42.0
Major Discretionary Revenues [1]	**185.5**	**201.5**	**207.7**	**214.5**	**221.3**	**220.7**	**204.0**	**210.6**	**217.5**	**224.6**	**231.9**	**239.5**
Development Revenue	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9
Licenses and Permits	1.7	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.0
Fines, Forfeitures & Penalties	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.1	1.1	1.1
Use of Money and Property	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Other Local Taxes	4.2	2.9	4.4	4.5	4.6	4.7	4.8	5.0	5.1	5.2	5.4	5.5
Police Grants	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other Agency Revenue	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Charges for Services	7.7	8.5	8.6	8.7	8.7	8.8	8.8	8.4	7.8	7.8	7.8	7.9
Interfund Reimbursements	9.6	9.6	9.6	9.6	9.6	9.6	9.7	9.7	9.8	9.8	9.9	9.9
Other Revenue	5.7	5.8	5.6	5.6	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.7
Transfers From Other Funds	14.0	13.2	13.4	13.8	14.2	14.6	15.1	15.5	16.0	16.5	17.0	17.5
American Rescue Plan Funding	12.6	11.1	2.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Revenues [2]	**63.5**	**60.9**	**53.4**	**51.9**	**52.6**	**53.3**	**54.0**	**54.2**	**54.3**	**55.1**	**55.9**	**56.7**
New Development Revenues [3]	**0.0**	**0.6**	**1.8**	**2.6**	**3.4**	**4.2**	**4.5**	**4.7**	**4.8**	**4.9**	**5.1**	**5.3**
Total General Fund Revenues	**248.9**	**263.0**	**262.9**	**269.0**	**277.2**	**278.2**	**262.5**	**269.6**	**276.6**	**284.6**	**292.9**	**301.5**
Year-over-Year Change	**0.1%**	**5.7%**	**-0.1%**	**2.3%**	**3.1%**	**0.3%**	**-5.6%**	**2.7%**	**2.6%**	**2.9%**	**2.9%**	**2.9%**
Expenditures												
Personnel Services	102.6	105.3	107.4	110.6	113.7	116.9	120.2	123.6	127.1	130.7	134.4	138.2
Retirement - PERS	13.3	13.5	15.4	15.4	15.5	15.6	15.6	15.7	15.7	16.1	16.5	17.0
Health Insurance	14.2	14.5	15.1	15.8	16.6	17.4	18.3	19.2	20.2	21.2	22.3	23.4
Salary Savings (Ongoing)	-3.1	-3.1	-4.2	-2.7	-2.8	-2.9	-3.0	-3.1	-3.2	-3.3	-3.4	-3.5
Salary Savings (One-Time)	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Personnel Services Expenditures	**126.9**	**130.0**	**133.7**	**139.2**	**143.1**	**147.1**	**151.2**	**155.5**	**159.8**	**164.7**	**169.8**	**175.1**
Supplies and Services	18.6	23.2	24.8	22.0	22.4	22.8	23.3	23.7	24.2	24.7	25.2	25.7
Utilities	6.1	6.1	6.5	6.8	7.2	7.5	7.9	8.3	8.7	9.1	9.5	10.0
Other Expenses	1.8	6.8	1.5	1.5	1.6	1.7	2.0	2.0	2.1	2.1	2.2	2.2
Equipment (Capital not CIP)	0.2	0.6	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Internal Services	3.8	3.9	4.0	4.0	4.1	4.2	4.3	4.4	4.5	4.6	4.6	4.7
Measure P Obligations (Transfers Out)	25.9	27.7	28.2	29.1	30.0	30.9	31.8	32.7	33.7	34.7	35.8	36.8
Measure A Obligations (Transfers Out)	25.9	27.7	28.2	29.1	29.9	23.1	0.0	0.0	0.0	0.0	0.0	0.0
Transfers Out/Other	6.7	7.2	7.1	7.1	7.1	7.0	7.1	7.2	7.3	7.3	6.9	7.0
Transfers/Capital Improvement Projects	8.3	8.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers/Debt Service (POBs)	13.0	13.1	13.3	13.4	13.6	13.7	13.8	14.0	14.2	14.3	14.8	14.9
Transfers/Section 115 Trust (PRF)	8.2	8.2	9.0	9.9	9.9	10.4	10.8	11.3	11.8	11.9	8.0	8.5
Transfers/Public Liability Trust	1.2	4.2	2.4	2.4	1.9	1.7	1.7	1.7	1.7	1.7	1.7	1.7
Capital Improvement Projects	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-CIP Project Expenditures	2.5	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7	2.7
Prior Year Appropriations - Carry Forward	0.0	-6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Expenditures [4]	**122.0**	**133.1**	**127.9**	**128.3**	**130.5**	**125.9**	**105.6**	**108.2**	**111.0**	**113.4**	**111.6**	**114.6**
Otay Ranch Village 8 West Fire Station	0.0	0.0	1.8	2.2	2.3	2.4	2.5	2.5	2.6	2.7	2.8	3.0
Cinematic Arts/East Library	0.0	0.0	0.0	1.0	2.1	2.1	2.2	2.3	2.3	2.4	2.5	2.5
Bayfront Fire Station	0.0	0.0	0.6	1.2	1.2	1.1	1.2	1.2	1.2	1.3	1.3	1.3
Otay Ranch Village 8 West	0.0	0.0	1.2	1.8	2.5	3.2	3.7	4.0	4.1	4.2	4.3	4.4
CV Center Sears Site Mixed Use Development	0.0	0.0	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6
New Development Expenditures [3]	**0.0**	**0.0**	**3.9**	**6.8**	**8.5**	**9.3**	**10.0**	**10.5**	**10.8**	**11.1**	**11.5**	**11.8**
Total General Fund Expenditures	**248.9**	**263.1**	**265.5**	**274.2**	**282.1**	**282.3**	**266.8**	**274.2**	**281.6**	**289.2**	**292.9**	**301.5**
Year-over-Year Change	**1.4%**	**5.7%**	**0.9%**	**3.3%**	**2.9%**	**0.1%**	**-5.5%**	**2.8%**	**2.7%**	**2.7%**	**1.3%**	**2.9%**
General Fund Surplus / (Deficit)	**0.0**	**0.0**	**-2.6**	**-5.2**	**-4.9**	**-4.2**	**-4.3**	**-4.6**	**-5.0**	**-4.6**	**0.0**	**0.0**
Surplus / (Deficit) as a % of Budget	**0.0%**	**0.0%**	**-1.0%**	**-1.9%**	**-1.7%**	**-1.5%**	**-1.6%**	**-1.7%**	**-1.8%**	**-1.6%**	**0.0%**	**0.0%**

Notes:
(1) **Major Discretionary Revenues** is the total of the following budget revenue categories: Property Tax, Sales Tax, Measure P Sales Tax, Measure A Sales Tax, Property Tax in lieu of VLF (VLF), Franchise Fees, Transient Occupancy Tax (TOT), and Utility Users' Tax (UUT).
(2) **Other Revenues** is the total of the following budget revenue categories: Development Revenue, Licenses and Permits, Fines, Forfeitures & Penalties, Use of Money and Property, Other Local Taxes, Police Grants, Other Agency Revenue, Charges for Services, Interfund Reimbursements, Other Revenues - Miscellaneous, and Transfers from Other Funds.
(3) **New Development Revenues** & **New Development Expenditures** are for revenues and expenditures projected for the Otay Ranch Village 8 West Development, Cinematic Arts Academic Center & Library, and the Former Sears Site at Chula Vista Center Mixed-Use Development anticipated to come online during LTFP term.
(4) **Other Expenditures** is the total of the following expenditure categories: Supplies and Services, Utilities, Other Expenses, Equipment, Internal Services, and Transfers/Debt Service.

Summary
The LTFP projects future structural deficits absent further action by the City to bridge the funding gaps. Based on baseline projections, growth in expenditures is anticipated to outpace the growth in revenues over the LTFP period. This long-term structural shortfall generates deficits the first eight years of the LTFP. The overall General Fund deficits are projected to fluctuate beginning in FY 2024 at approximately $2.6 million and ending in FY 2031 at approximately $4.6 million. Revenues are projected to equal expenditures in FY 2032 and FY2033.

GENERAL FUND RESERVES

City Council Policy No. 220-03 establishes a General Fund Operating Reserve Fund for the City. The General Fund Operating Reserve (Operating Reserve) represents unrestricted resources or unassigned balance available for appropriations by the City Council to address extraordinary needs. The policy sets the long-term goal of building a General Fund Operating Reserve of no less than 15% of the City's operating expenditures. Per the policy, the Operating Reserve is to be used to provide temporary financing for unanticipated extraordinary needs of an emergency nature, such as major storm drain repairs, litigation, or settlement costs or an unexpected liability created by Federal or State legislative action. Authorized use of this Operating Reserve requires approval by four/fifths vote of the City Council.

In addition to the Operating Reserve, Policy No. 220-03 established the Economic Contingency Reserve (Contingency Reserve) and the Catastrophic Event Reserve (Catastrophic Reserve). The funding goal for these reserves is 5% and 3% of the annual operating budget, respectively. The Contingency Reserve is funding set aside to mitigate a significant downturn in the economy; while the Catastrophic Reserve is to be used to address unexpected expenses related to a major natural disaster in the City. Usage of either of these funds requires authorization by four/fifths of the City Council. It is anticipated that the funding of these reserves would be a long-term goal and would be funded from unanticipated revenues or expenditure savings.

The City Council specifically amended this policy on November 3, 2020 with the adoption of Pension & OPEB Reserve Fund Policy No. 220-09, which provides, in relevant part, that:

i. Allocations for the Section 115 Trust, referred to as the Pension Reserve Fund ("PRF"), will only occur after the full funding of the 15% General Fund Operating Reserves; and
ii. Upon meeting the 15% General Fund Operating Reserves, 75% of all future surplus funds

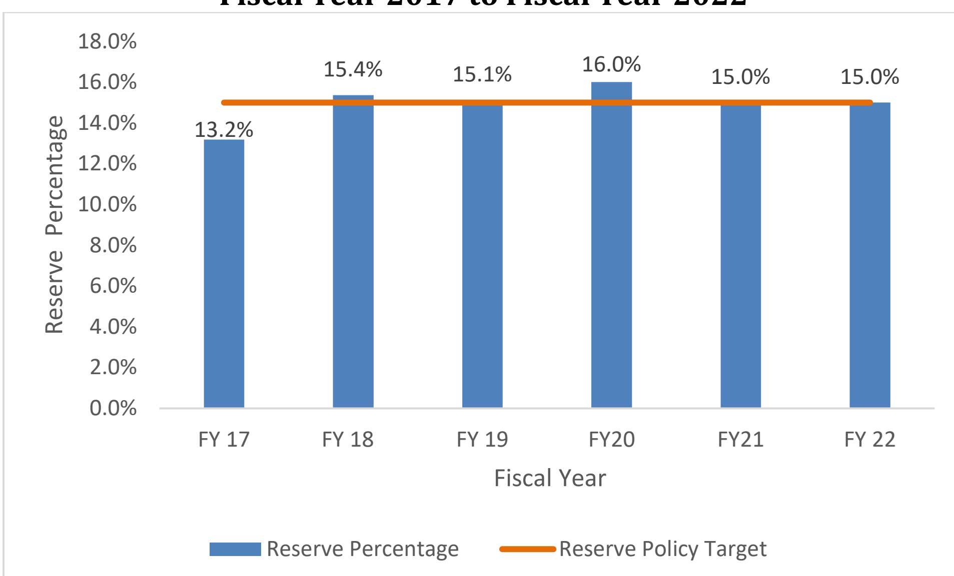
will be transferred to the PRF, and the remaining 25% will be allocated to the Economic Contingency Reserves and Catastrophic Event Reserves in accordance with this Policy; and

iii. In the event all three General fund reserve accounts are fully funded at the stated policy percentage, 100% of surplus funds will be transferred to the PRF until it reaches 15% of General Fund Expenses (excluding Measure A & P, identical dollar amount to the General Fund Operating Reserves).

The annual budget does not include a line item to build reserves; all anticipated revenues have been budgeted in order to balance the budget. Higher reserve levels will help mitigate the negative impact on revenues from economic fluctuations, support debt service coverage ratios, and provide a resource to fund unforeseen expenditure requirements.

The following chart depicts the General Fund operating reserves since Fiscal Year 2017 as a percentage of the respective adopted budgets. As the reserve is intended to be a gauge of the General Fund, Measure P, and Measure A funding are not included in the calculation of the General Fund Reserve.

General Fund Operating Reserve
Fiscal Year 2017 to Fiscal Year 2022



POTENTIAL SOLUTIONS FOR ADDRESSING PROJECTED DEFICITS

The LTFP projects future deficits throughout the Plan period, with increases in expenditures projected to outpace revenue growth. Below are possible actions that could be further explored in order to develop potential actions to mitigating future deficits.

- **Technology** – Identify and purchase technology that provides a positive return on its public investment. Technology can increase service levels to the constituents without raising costs to the City (ex. Third Party Mobile Applications); create new revenues to the City that exceed its costs; or reduce costs overall through the replacement of manual processes (ex. provide more services with the same number of staff).
- **Efficiency** – Evaluate current City processes for potential efficiencies in delivering City services. Efficiencies could allow for the delivery of City services for less cost or provide greater benefits to the public.
- **Policies for use of One-Time Funds** – Many cities establish policies to guide the usage of one-time funds so that as grants, donations, and unexpected revenues are received, the funds are allocated to the highest priority in the City automatically. A typical one-time funds policy would first allocate additional revenues to a reserve fund until the minimum required reserve is met, a vehicle and equipment replacement fund, and finally a comprehensive asset management program (capital projects). Other potential uses of one-time funds include projects and services that create ongoing revenue streams (ex. solar projects, business attraction incentives, etc.).
- **Use of Public Private Partnerships** – Public private partnerships are cooperative agreements between a government agency (City), and the private sector to deliver a service or a project and can take a variety of forms. One great example of this type of partnership currently taking place in the City of Chula Vista is within the City's library system. Several non-profit organizations partner with the City to provide services to the public at local libraries at low or no cost. Other creative public-private partnerships that have been used by other cities include adopt-a-park programs where residents or local organizations volunteer to maintain or rehabilitate an existing park (e.g., Living Coast Discovery Center, Olympic Training Center).
- **Internship/Volunteer Programs** – Utilize volunteers and internships to support City staff with one-time projects, special events, research, and analysis. While these individuals will not perform day-to-day duties of current City employees, they are able to add value without significant cost. A robust internship/volunteer program can create significant financial benefits to the City while providing the individuals volunteering valuable experience and skills that can make them more attractive when seeking full-time employment.
- **Contract Services** – Cities commonly contract out for a variety of services including but not limited to: legal; engineering; financial; and specialty services, typically in cases where the City does not possess the in-house expertise to perform the function most efficiently.
- **Service Levels** – Service level can be defined simply as the quantity and quality of the services provided by a City. As economic cycles occur and City revenues rise and fall, the most difficult job for a City is to maintain service levels. The structural deficit detailed in the LTFP demonstrates the severity of the projected fiscal condition of the City and the importance of balancing service levels with financial resources. The City should undertake a comprehensive

review of all the services provided by the City. By defining these services and setting a minimum standard for the delivery of those services, a model could be developed that prioritizes where potential reductions in service level could take place with the least overall impact to the residents of Chula Vista.

- **Fees/Cost Recovery** – In general, local governments provide many services to the general population at no charge (ex. Police, Fire, Road Maintenance, Park Maintenance, etc.). These services are paid for with general revenues that the City receives including sales tax, property tax, and a variety of other general revenue sources. Cities also provide many services that are a specific benefit to the party requesting the service. The parties benefiting from these special services are charged a fee. Reviewing development plans, inspecting buildings, and renting a park space are all examples of services the City provides that are paid directly by a resident or developer. The City's current Master Fee Schedule was adopted to set the fees for all services the City provides directly to individuals, and businesses. In practice, fees should be set to recover all costs. Some services are subsidized by the City in order to encourage participation in a program or event. It is important to review all subsidized fees periodically to assess the feasibility of continuing to subsidize these services in the future.

POTENTIAL SOLUTIONS TO RESOLVE STRUCTURAL INFRASTRUCTURE DEFICIT

The City's assets continue to age and will require additional repair and rehabilitation in the coming decade and beyond. Measure P, passed in November 2016, continues to provide much needed funding for a significant portion of the City's Asset Management Program over the next ten years, but will expire in April 2027.

While Measure P does address a significant amount of deferred maintenance items, the infrastructure needs of the City identified in the asset management exceed the funding anticipated to be generated from Measure P. The City will need to continue to pursue additional funding sources to address the City's capital needs. Many of the solutions mentioned in the operating section overlap into the infrastructure section. These include Public/Private Partnerships, Competitive Purchasing, Use of One-Time Funds, and Service Levels.

CONCLUSION

The LTFP presents a baseline scenario for City General Fund resources over a ten-year period based on currently available information.

Based on projections within the LTFP, the City will be facing General Fund structural deficits in the first eight years of the 10-year LTFP period. In the absence of identifying new revenues or reducing ongoing expenditures, the structural deficits will lower the City's unassigned (fund) balance. In order to preserve and maintain the valuable resources, current service levels, and quality of life the community has enjoyed over the years, the City will need to make a concerted effort to adopt several of the solutions mentioned above. Proactive planning and a commitment to a fiscally sustainable service delivery model will be required.