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A Fiscal Analysis of the City of Chula Vista

Chula Vista—the Looming Fiscal Crisis

October 25, 2006

By

TaxpayersAdvocate.org

www.taxpayersadvocate.org

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Key Findings

- City has run a deficit for the past four years despite robust increases in revenues
- City cut Emergency Reserves \$21 million to balance budgets
- City added 256 employees since 2001, and significantly increased salaries and benefits
- Average management salary is now \$131,400 plus benefits
- City-wide debt increased by \$143 million in the past five years
- Pension debt tripled over two years
- City's shaky finances place re-development and Bayfront Plan at risk

Executive Summary

The City of Chula Vista is facing a serious, self-created financial crisis. This looming crisis is as a result of actions by City Council and is caused by the following factors:

- Significant increases to spending, which has consistently out-stripped healthy revenue growth
- Significant increase in General Fund debt
- Significant increase in un-funded pension liability

These actions have forced City Hall to resort to deficit spending and reduction of emergency reserves in order to balance the city budget. A detailed review of Enterprise Funds (Sewer/Water) should occur to ensure that only appropriate transfers to the General Fund have occurred, and are not being used to mitigate General Fund over-spending, as occurred in the City of San Diego.

Redevelopment Agency—Proposed Gaylord Project

While a comprehensive review of the Redevelopment Agency and the proposed Gaylord Project was not undertaken as part of this study, given the commitments of existing tax-increment funds, and given the wide ranging fiscal problems facing the City of Chula Vista, future redevelopment and bayfront projects are an increasingly risky enterprise.

To address these alarming fiscal issues, the City of Chula Vista will be faced with the following options:

- Make cuts in programs, staff or both
- Raise taxes

Chula Vista—the Looming Fiscal Crisis

Revenue Growth vs. Expenditures

- Strong Revenue Growth Outpaced by Spending

Decade of Growth and Spending -- 1996 through 2005

The City of Chula Vista has for the most part had consistent and strong growth in revenues. Over 10 years from Fiscal Year (FY) 1995/1996 through FY 2004/2005, the City of Chula Vista has seen revenues increase from \$98.1 million to \$233 million, according to the June 2005 Comprehensive Annual Financial Report (CAFR).

Spending however, has increased even faster, from \$108.7 million to \$256.4 million over the same decade.

To cover this deficit spending, the City of Chula Vista has used one-time revenues to balance its operating budget.

Detailed Spending Increases—FY 1996 through FY 2005*

In Millions \$

General Government:	\$22.7 to \$46.0
Public Safety:	\$24.8 to \$61.6
Public Works:	\$21.3 to \$56.2
Parks and Recreation	\$5.0 to \$5.3
Library	\$3.8 to \$8.9
Capital Improvements	\$15.1 to \$61.1
Debt Service	\$15.7 to \$16.9
Total	\$108.7 to \$256.4 million

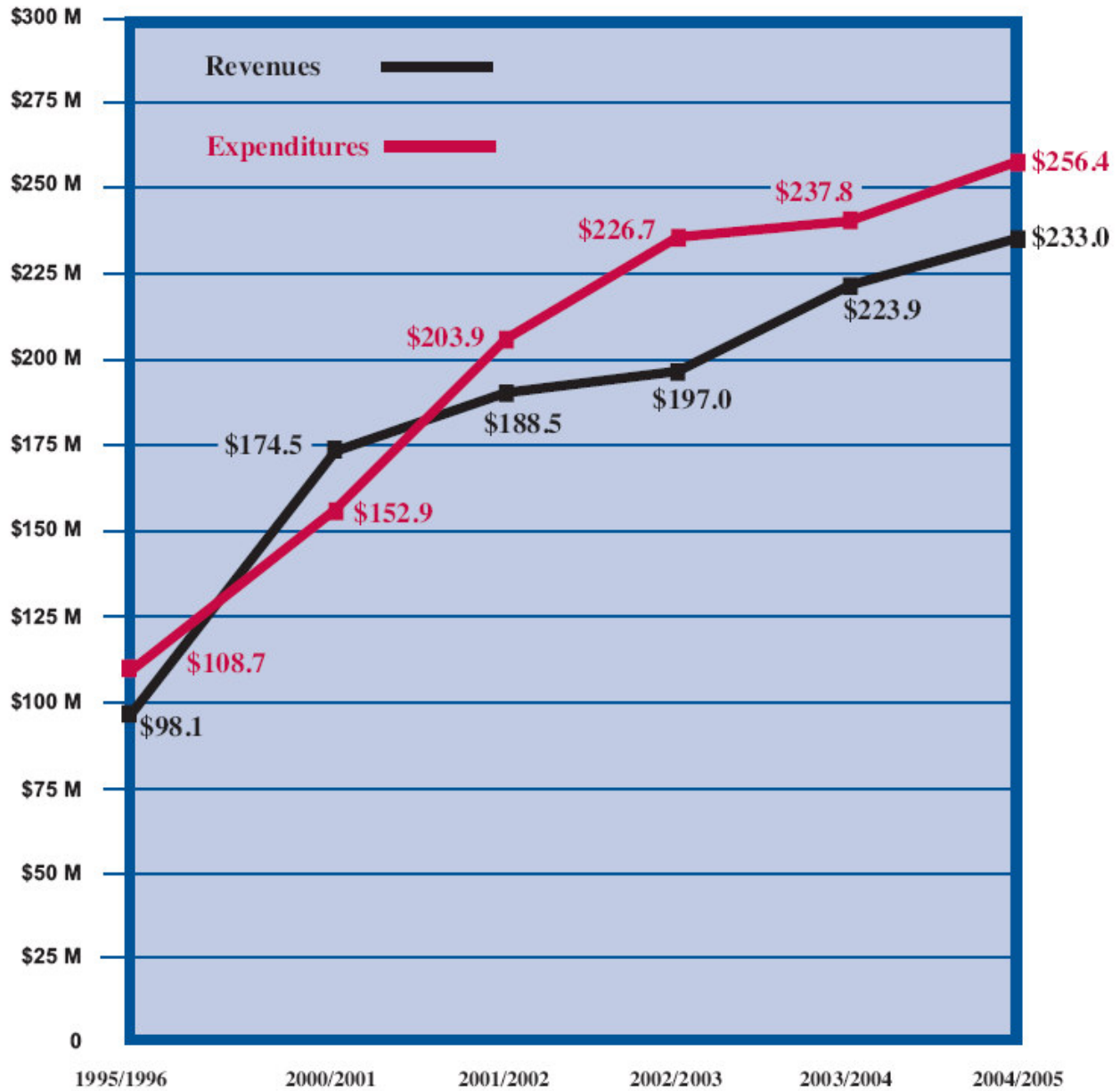
In this year' adopted budget (2006/2007), total spending has risen to \$308 million, while total revenues are projected to be \$307.8 million

**Source: City of Chula Vista Comprehensive Annual Financial Report (CAFR) June 30, 2005*

City of Chula Vista

ALL REVENUES/EXPENDITURES

FISCAL YEARS 1995 TO 2005



IN MILLIONS OF \$
Source: City of Chula Vista

Deficit Spending & Reduction of Emergency Reserves

- City Reduced Emergency Reserves by \$21 million to Cover Deficits

City Running Deficits over Past Four Years

The City of Chula Vista has run a deficit of \$21 million over the past four years

Drastic Reduction of Emergency Reserves since FY 2001/2002

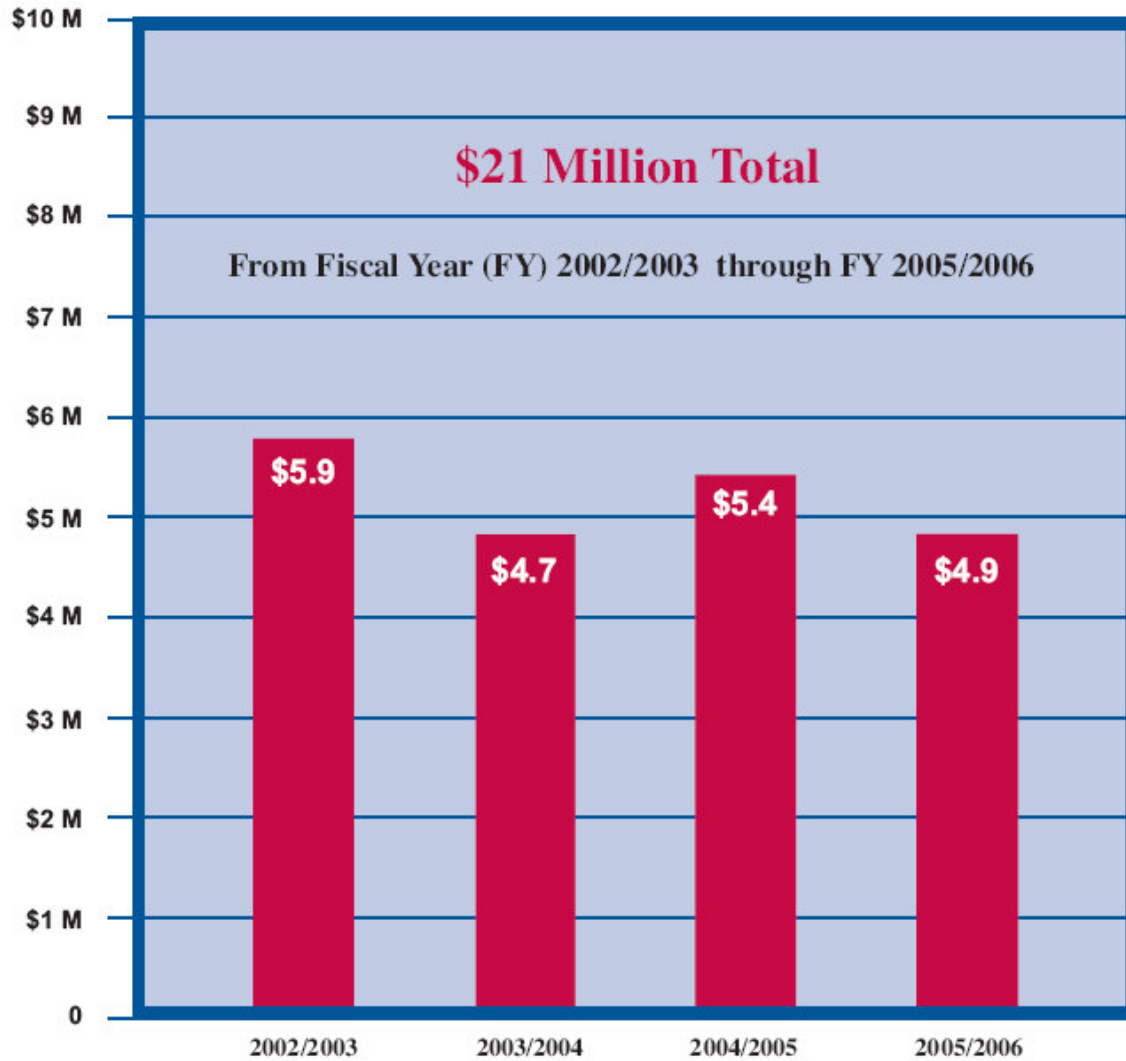
In the last four budget years, (FY 02/03 through FY 05/06), despite overall city revenues increasing by \$50 million, the City had to reduce General Fund emergency reserves by \$21 million in order to balance the budget. This was primarily due to un-budgeted mid-year spending increases. According to the city, about ¼ of the shortfall or \$5.3 million was due to revenue reductions from the State of California. However, the remaining \$15 million was due to additional spending.

Since FY 2001/2002 through 2005 the Mayor and Council have approved reduction of the General Fund emergency reserves from: \$31.2 million to \$15.1. Another \$4.9 million reduction this past year brought General Fund emergency reserves down to \$10.15 million at the end of FY '06, or approximately 6% of expenditures which is 2% below the City Council's own reserve policy of 8%.

City Staff predicts that Emergency Reserves will have to be depleted again in the 2007/2008 budget by approximately \$1 million.

City of Chula Vista

DEFICIT SPENDING

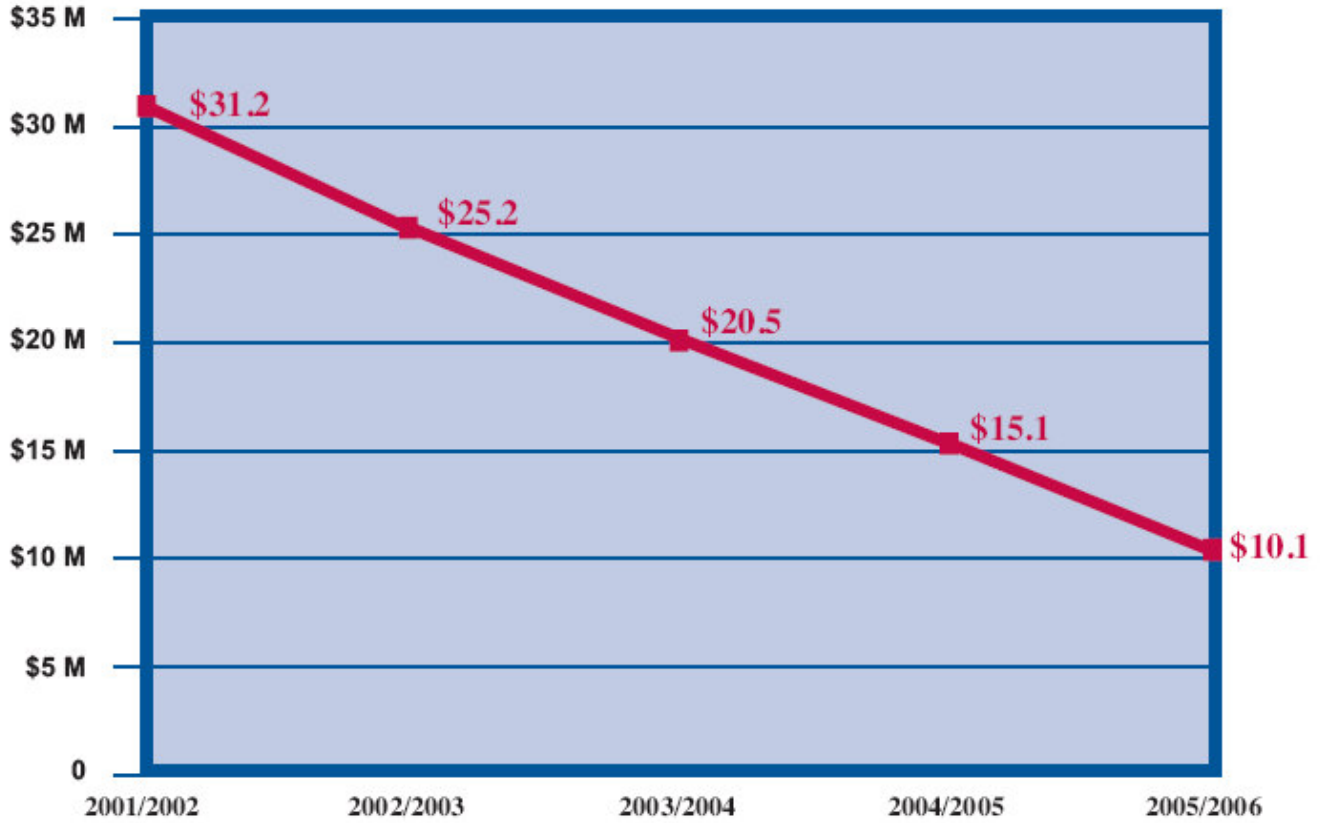


Source: City of Chula Vista

City of Chula Vista

REDUCTION OF “EMERGENCY” RESERVES

FISCAL YEARS 2002 THROUGH 2006



IN MILLIONS OF \$

Source: City of Chula Vista

Growth of Employees and Salaries

- 257 employees added. City Council staff doubled. Management salaries average \$131,400 plus benefits.

Increased Employees

From FY 2001 through the current FY 2007 budget, the City of Chula Vista has added 257 employees; 113 of the new hires have been in public safety. This was equaled by Development/Maintenance Departments, which increased by 112.75.

Note: City Council staff has itself more than doubled from 6 to 15. The budget for City Council services this year will be \$1.6 million.

Executive & Senior Management Salaries and Benefits

As of September 28, 2006, the salaries of the city's 68 executives and managers totaled approximately \$8.9 million, an average of \$131,400 per year. In addition each receive \$10,500 to \$11,966 in annual benefits, plus a City 401k contribution from 2% to 5% of salary , plus a monthly car allowance for over ½ of these positions.

City of Chula Vista

CITY STAFF EMPLOYEE GROWTH

Fiscal Year (FY) 2001 through FY 2007

	FY 2001	FY 2007	Increase
Legislative/Administrative	128.58	144.50	15.92
Development/Maintenance	360.00	472.75	112.75
Public Safety	419.23	532.50	113.27
Culture & Leisure	99.13	114.00	14.87
GRAND TOTAL	1006.94	1263.75	256.81

Source: City of Chula Vista

Increased Debt

- The City has increased its debt by \$143 million in the past 5 years. Total city debt is now \$190 million.

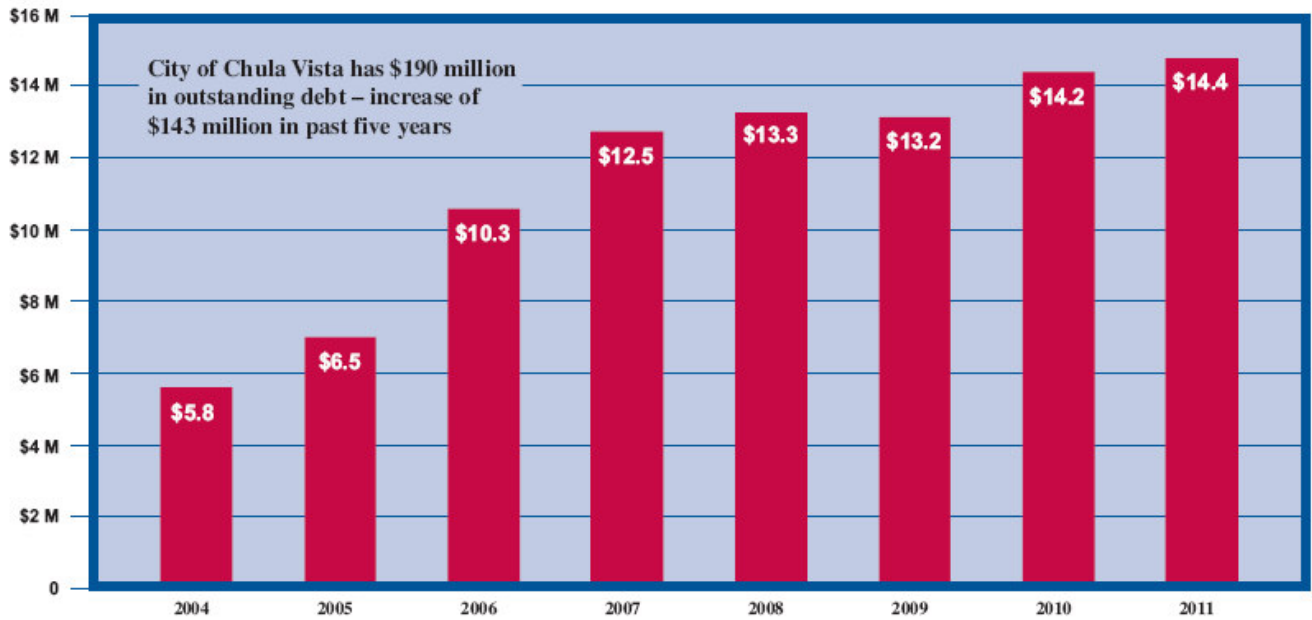
This year, the General Fund, which pays for basic city services, will have an estimated debt service payment of \$12 million, growing to \$14 million annually in four years. The city stipulates that this would be approximately 7.3% of the General Fund, which is close to hitting the generally accepted debt ceiling of 8% to 10%.

The City has stated that ½ of these payments will be paid from development fees and construction taxes. However, relying on building and related fees to fund half the City's General Fund debt service should raise a red flag, given the slowdown of construction/building activity. In FY 2005, building permits decreased 33%, and last year the City was \$3 million short in anticipated revenues in its Development Services department.

Total annual City-wide annual debt service is budgeted at \$24.8 million this year, or 8% of the total \$308 million budget.

City of Chula Vista

ANNUAL GENERAL FUND DEBT PAYMENTS FY '04 THROUGH FY '11



IN MILLIONS OF \$
Source: City of Chula Vista

Defined Benefit Pension Plan—Pension Obligation Bonds

- Unfunded Pension Liability is \$66,870,816, while funded percentage dropped from 82.5% to 93.2% in just 2 years.

The City of Chula Vista's retirement plan is part of the Public Agency portion of the California Public Employees' Retirement System (CalPERS), which acts as the City's retirement and investment agent.

As of June 30, 2004 (the most recent data available), the safety employees' plan is 91.8% funded, while the miscellaneous employees' plan is 74.9% funded. The total unfunded pension liability is \$66,870,816 (up from \$20.4 million as of June 30, 2002), resulting in a composite funded status of 82.5%.

On June 30, 2002, the funded status was 93.2%. The degradation of the funded status was partially caused by poor investment returns. It was, however, exacerbated by the fact that CalPERS assumed there would be a 3.25% annual payroll growth factor (their standard assumption), while Chula Vista's actual annual payroll growth between 2002 and 2004 averaged over 7%.

Additionally, according to CalPERS projections, Chula Vista would not be making a payment during the year ended June 30, 2005 sufficient to cover the interest on the unfunded liability. By making payments that do not cover interest, let alone principal (negative amortization), the unfunded liability will continue to grow. This would be true even if payroll did not continue its upward trend. This is exactly the same situation that created the City of San Diego's current pension fund crisis.

In addition to the \$66 Million unfunded liability, Chula Vista is carrying pension obligation bonds (POBs) of \$12,991,962 as of June 30, 2005. These bonds were originally issued in 1994 and totaled \$16,786,532 at that time. The POBs have various due dates, but all must be paid by August 1, 2011.

Chula Vista is paying 8.15% to earn 7.75%.

Of the bonds, \$7 Million carry an interest rate of 8.15%. This is particularly troubling in that CalPERS projected investment return is 7.75%. In layman's terms, this means Chula Vista is paying 8.15% to earn 7.75%.

It should be noted that even if CalPERS' actual rate of return for FYE June 30, 2005 exceeds 7.75%, that system still has previously unrealized losses that have not yet been reflected in its return on investment due to its asset smoothing methodology. According to the June 30, 2004 CalPERS Actuarial Valuation, the actual market rate of return for the year ended June 2005 would have to exceed 18% in order for the 7.75% expected rate of return to be realized. For Chula Vista, this means that unless CalPERS did indeed hit 18% for 2005, Chula Vista's unfunded liability has increased once again.

City of Chula Vista

Outstanding Pension Debt

JUNE 30, 2002 TO JUNE 30, 2004*



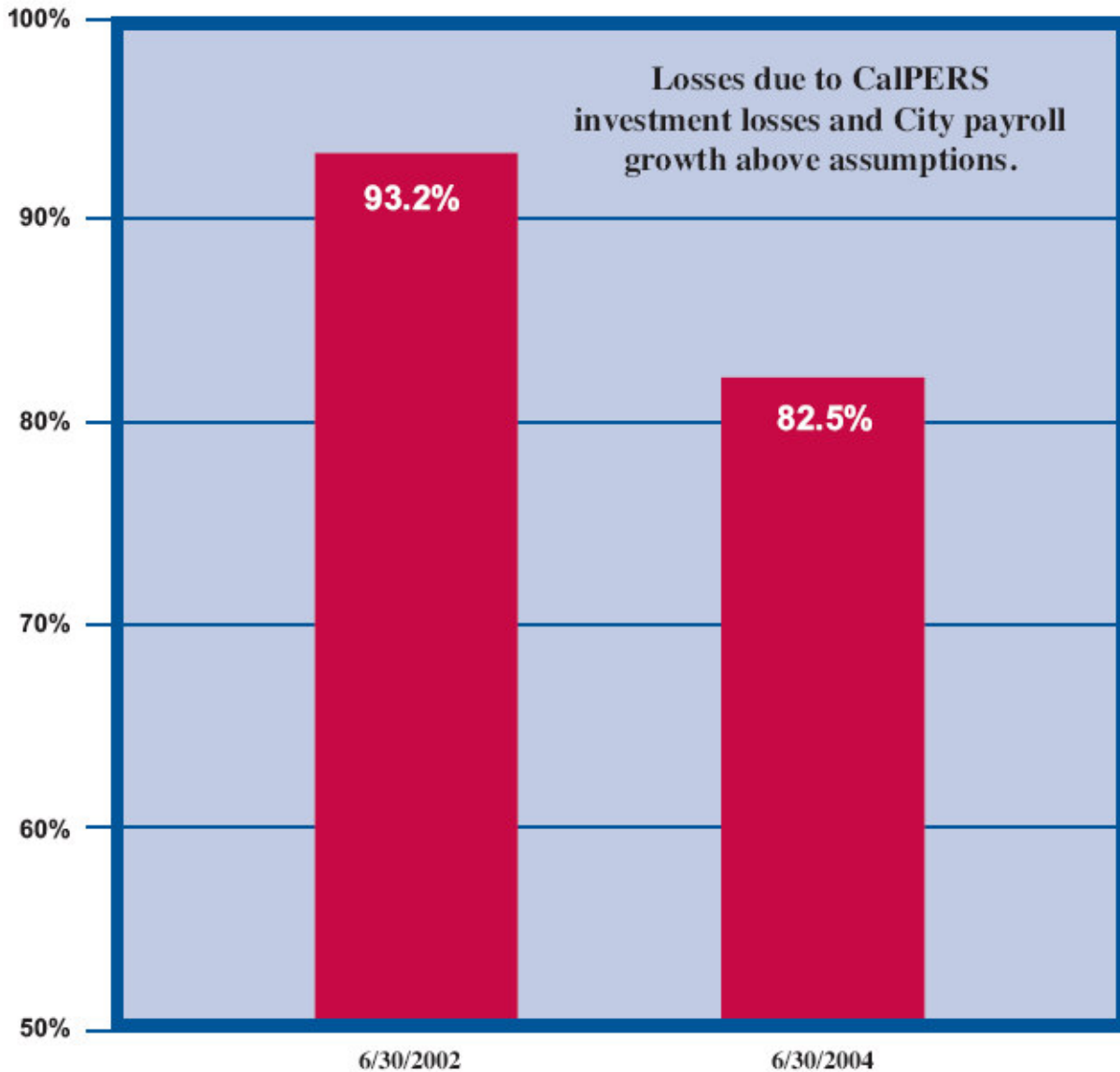
In addition to the un-funded liability – the City of Chula Vista has \$12.9 million in Pension Obligation Bonds as of 6-30-05.

* Most recent available data
Source: City of Chula Vista

City of Chula Vista

Pension Funding Status

JUNE 30, 2002 TO JUNE 30, 2004*



* Most recent available data

Source: CalPERS (California Public Employees Retirement System)

TaxpayersAdvocate.org

Formed in 2003, TaxpayersAdvocate.org a private, non-partisan fiscal watchdog organization based in San Diego and Sacramento. In addition to analyzing fiscal policy, ballot measures and legislation, TaxpayersAdvocate.org endorses candidates for public office in California.

Report Author

The principal author of this report was Scott Barnett, President, TaxpayersAdvocate.org. Scott Barnett has over 25 years of experience in public policy and budgeting. Mr. Barnett served on the Del Mar City Council from 1984 to 1988, was executive director of the San Diego County Taxpayers Association from 1994 through 2001 and formed TaxpayersAdvocate.org in 2003.

Charts and Graphs and Source Documents

The attached graphs and charts were prepared by TaxpayersAdvocate.org are all based on data derived from official City of Chula Vista budgets and documents and as well as pension documents from the California Public Employees Retirement System (CalPERS).

These documents include:

- City of Chula Vista -- CAFR (Comprehensive Annual Financial Report) June 30, 2004
- City of Chula Vista -- CAFR (Comprehensive Annual Financial Report) June 30, 2005
- City of Chula Vista -- FY 2007 Adopted Budget
- City of Chula Vista -- Five Year Revenue Forecast May 25, 2006
- City of Chula Vista -- Annual Debt Service Pension Obligation Bonds
- CalPERS -- City of Chula Vista -- Public Safety Employees Annual Evaluation Report—October 2005
- CalPERS -- City of Chula Vista -- NON-Public Safety Employees Annual Evaluation Report—October 2005
- City of Chula Vista -- Executive Salary by Bargaining Unit -- September 28, 2006
- City of Chula Vista -- Executive Salary and Benefits -- September 28, 2006

Thank you to the City of Chula Vista for their prompt and thorough response to document requests.