

— CALIFORNIA —
NATIONAL CITY
1887
INCORPORATED



**POPULAR ANNUAL
FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2016**

Cover Photo:

Pier 32 Marina, National City, Gallegos, D. (Photographer)

ABOUT THE PAFR

The City of National City is pleased to present its Popular Annual Financial Report (“PAFR”) for the fiscal year ended June 30, 2016. The PAFR is published to increase public awareness about the City’s financial condition. This report provides an overview of the City’s financial position, including sources and uses of funds, economic information about the community, and a highlight of the City’s spending for the fiscal year. It is our goal that this report is easy to read and understand.

The PAFR summarizes the financial activities of the City of National City’s governmental and proprietary funds, deriving information from the City’s Comprehensive Annual Financial Report (“CAFR”) for Fiscal Year 2016. The CAFR has been prepared in conformance with generally accepted accounting principles (“GAAP”) and includes financial statements audited by The Pun Group, LLP, an independent firm of licensed certified public accountants. The PAFR, however, is unaudited and presented on a non-GAAP basis. The elements of the GAAP-basis presentation of the CAFR not found in the PAFR are the use of prescribed accounting methods and financial statement formats, presentation of segregated funds, and disclosure of material matters, financial and non-financial, in the notes to the financial statements. Both the PAFR and CAFR are available online at www.NationalCityCA.gov or by contacting the Department of Finance at City Hall, National City Boulevard, National City, California, 91950; phone: 619-336-4330; or e-mail: Finance@NationalCityCA.gov.

Your questions, comments, and suggestions regarding the information in this report are welcome.



Ron Morrison
Mayor



Albert Mendivil
Vice Mayor



Jerry Cano
Councilmember



Mona Rios
Councilmember



Alejandra Sotelo-Solis
Councilmember

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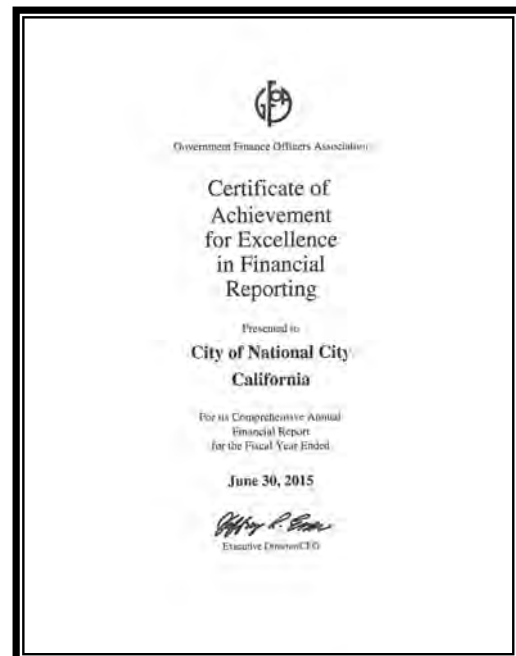
AWARDS

The Government Finance Officers Association of the United States and Canada (“GFOA”) presented the Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of National City for its PAFR for the fiscal year ended June 30, 2015. The Award for Outstanding Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. In order to receive the award, a governmental unit must publish a PAFR, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year. We believe our current PAFR continues to meet the Award for Outstanding Achievement Program’s requirements, and we are submitting it to the GFOA for consideration for another award.

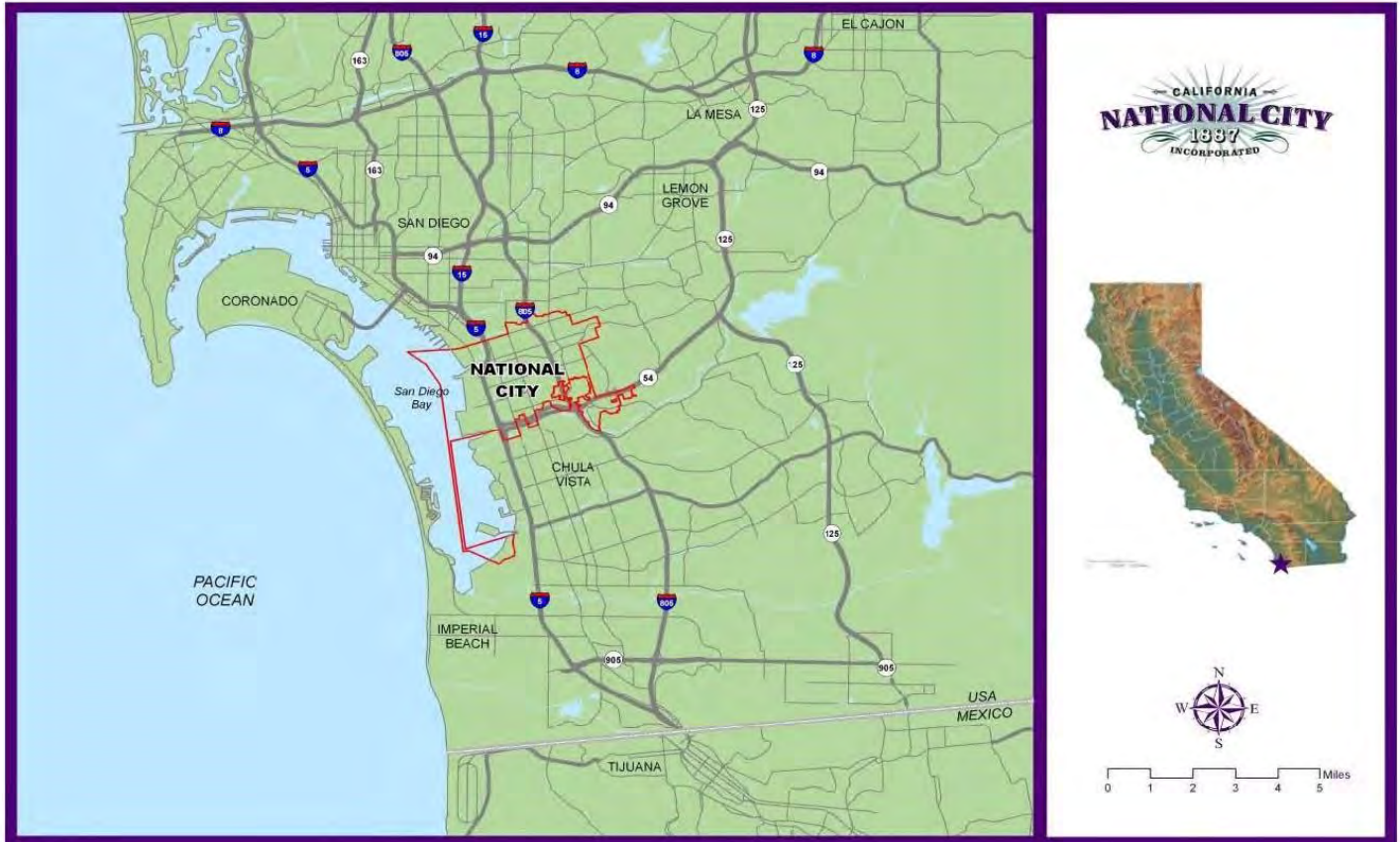
In addition to receiving the Award for Outstanding Achievement in Popular Annual Financial Reporting, the City of National City CAFR for the fiscal year ended June 30, 2015 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the GFOA. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to receive the award, a governmental unit must publish an easily readable and efficiently organized CAFR that satisfies both GAAP and applicable program requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.



PROFILE OF THE CITY

The City of National City, incorporated on September 17, 1887, is located in southwestern San Diego County and occupies 9.2 square miles, bordered by the City of San Diego to the north and east, San Diego Bay to the west, and the City of Chula Vista to the south.



The City is a general law city and operates under the council-manager form of government with five City Councilmembers, including the Mayor, elected to four-year overlapping terms, and an appointed city manager. The citizens of National City also elect the City Treasurer and the City Clerk.

The City provides a full range of services to its residents, including general government, public safety (police, fire, disaster preparedness, and building inspection), construction and maintenance of the City's infrastructure, economic development, affordable housing, cultural and recreational programs, library and literacy programs, and senior nutrition services.



PROFILE OF THE CITY

Demographic Statistics

Year	Population	Per Capita Personal Income	Personal Income	Unemployment Rate
2016	60,768	\$ 17,465	\$1,061,313,120	6.6%

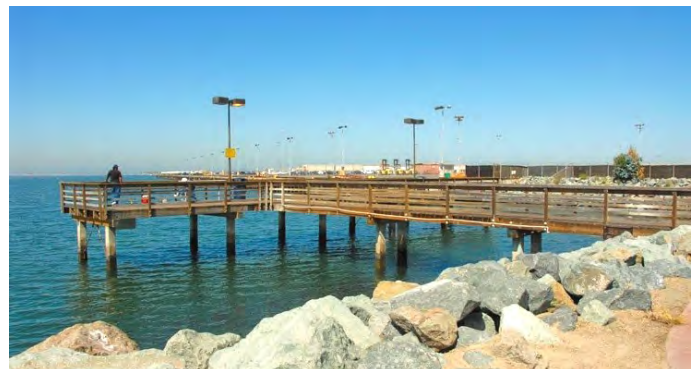
Sources: California Department of Finance, United States Census Bureau, and California Employment Development Department

Race	% of Pop.
Hispanic or Latino	64.8
Asian	17.1
White	11.3
Black or African American	4.0
Native Hawaiian / Other Pacific Islander	0.7
American Indian or Alaska Native	0.3
Other Race(s)	1.9

Age	% of Pop.
Under 5 years	7.6
5 to 17 years	17.6
18 to 44 years	43.4
45 to 61 years	18.3
62 to 64 years	2.5
65 years and over	10.5
Median age (years)	29.8

Source: San Diego Association of Governments ("SANDAG")

National City Full-time Equivalent Positions	
<u>General Government</u>	
Administration	35.50
Finance	15.77
Community Development	54.33
<u>Public Safety</u>	
Police	129.50
Fire	47.00
<u>Engineering & Public Works</u>	
Engineering	11.00
Public Works	47.00
<u>Housing, Grants, & Asset Management</u>	25.00
Total	365.10



ECONOMIC PROFILE

National City, San Diego County's second oldest city, is centrally located in a thriving bi-national region of five million consumers. It is ten minutes from everywhere and positioned for prosperity, with proximity to the San Diego Bay, the US-Mexico border, downtown San Diego, an international airport, rail lines, San Diego State University, and other colleges and universities. It is encircled by interstates 5 and 805 and highways 54 and 15, and it is serviced by the San Diego Trolley and the Metropolitan Transit System ("MTS") seven days a week, conveniently connecting the City to the region. With its location and accessible transportation network, National City is "in the center of it all," giving it a competitive edge in business and industry.

The City has a progressive history of commercial development, including the "Mile of Cars," San Diego County's first major auto park, and the County's first indoor mall and largest enclosed mall in the South San Diego Bay area. Both draw shoppers from throughout the County, as well as outlying areas. Overall, National City is home to more than three thousand businesses – a remarkable number for a city with an estimated population of 60,768 – from small family-owned operations to multi-million dollar corporations.

The National City Marine Terminal, part of the Unified Port of San Diego, is the most advanced vehicle import and export facility on the West Coast, processing more than 270,000 vehicles annually. Lumber is also imported from the Pacific Northwest for construction use throughout the region. The City's port area extends three miles along San Diego Bay and is part of the largest US Navy installation on the West Coast.

National City's diversified commercial, retail, and industrial presence reduces the impacts of economic downturns and helps it rebound steadily, as with the most recent recession.



STRATEGIC PLAN INITIATIVES

During the Fiscal Year 2016 budget process, City management reviewed and updated the City's five-year Strategic Plan. The Strategic Plan is approved by the City Council every two years in conjunction with adoption of the annual budget. Its purpose is to establish a long-range vision for the City and provide a basis for developing a work plan to ensure the goals of the Strategic Plan are met.

**City of National City Strategic Plan
2015-2020**

Provide Quality Services
Achieve Fiscal Sustainability
Improve Quality of Life
Enhance Housing and Community Assets
Promote a Healthy Community

National City's Capital Improvement Program, a "sliding" five-year budgeting process for establishing the City's capital priorities and financing plan, addresses many of the Strategic Plan's initiatives. Amongst the most notable projects completed during the fiscal year are the following:

- Transit-Oriented Infill Affordable Housing & Paradise Creek Enhancement Project (Phase I)
- National City Aquatic Center (completed)
- A Avenue "Green" Street (completed)
- D Avenue & 12th Street Roundabout & War Memorial (completed)
- Highland Avenue Safety Enhancements (completed)

Amongst its efforts to achieve fiscal sustainability, the City maintains a series of reserves to strengthen its ability to withstand unexpected financial emergencies and to accumulate funds for large scale purchases. Currently, the balance of the City's primary reserve, the General Fund Contingency Reserve, is nearly \$9.1 million. In addition, a reserve was created during the current fiscal year with initial funding of \$2.5 million to begin to pre-fund deferred maintenance costs of City facilities.

The City of National City supports its residents by providing quality services and sponsoring several free events and programs throughout the year to improve quality of life and promote a healthy community, including various homework help, literacy, craft, and computer programs, free book week, movie nights at the library and City parks, Walk to School Day, Community Service Day, yoga classes, National Night Out BBQ & movie, Firefighters' Halloween "Tower of Terror," and holiday tree-lighting and ice skating. The City also co-sponsors a 4th of July carnival and fireworks and Automobile Heritage Day for which admission are free. The City sends electronic newsletters and social media posts to inform the community of past and upcoming events. Information also may be found on the "Calendar of Events" page of the City's website.

CITY FINANCIALS

Statement of Net Position

The following financial summary is a condensed view of the City of National City's assets and liabilities for all governmental and business-type funds as of June 30, 2016 and 2015.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Assets						
Current & Other Assets	\$106,318,129	\$ 98,615,952	\$ 2,310,402	\$ 2,177,592	\$108,628,531	\$100,793,544
Capital Assets, Net	146,413,209	133,737,536	5,933,077	6,237,547	152,346,286	139,975,083
Total Assets	252,731,338	232,353,488	8,243,479	8,415,139	260,974,817	240,768,627
Deferred Outflows of Resources	7,396,038	6,311,773	-	-	7,396,038	6,311,773
Liabilities						
Current Liabilities	12,160,183	12,060,337	481,673	468,165	12,641,856	12,528,502
Long-term Liabilities	96,083,125	93,410,902	725,833	1,045,741	96,808,958	94,456,643
Total Liabilities	108,243,308	105,471,239	1,207,506	1,513,906	109,450,814	106,985,145
Deferred Inflows of Resources	7,849,166	13,823,056	-	-	7,849,166	13,823,056
Net Position:						
Invested in Capital Assets, Net of Related Debt	134,444,245	120,377,947	4,905,110	4,926,410	139,349,355	125,304,357
Restricted	35,747,699	33,889,727	2,031,385	1,876,125	37,779,084	35,765,852
Unrestricted	(26,157,042)	(34,896,708)	99,478	98,698	(26,057,564)	(34,798,010)
Total Net Position	\$144,034,902	\$119,370,966	\$ 7,035,973	\$ 6,901,233	\$151,070,875	\$126,272,199

The \$24,798,676 (19.6%) increase in the City's total net position resulted from an increase in governmental activities of \$24,663,936 (20.7%) and growth in business-type activities of \$134,740 (2.0%). The increase in governmental activities net position was primarily due to transfers of assets totalling \$13,734,184 from the Successor Agency (former redevelopment agency) to the City and an excess of revenues over expenses of \$11,756,329. The increase in business-type activities' net position largely was due to an increase in rental income and decreases in the operating and maintenance expenses of the City's low and moderate income housing for seniors.

Current & Other Assets – assets that reasonably can be expected to be converted to cash, sold, or consumed within one year.

Capital Assets, Net – the City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently, the assets are not available for future spending.

Current Liabilities – primarily debts that can be paid off in one year or less, including accounts payable, accrued payroll, accrued interest payable, and deferred revenue.

Long-Term Liabilities – mainly represents debt obligations of the City. The proceeds from these debt issues are used to finance large projects, such as building construction and renovations, major equipment purchases, and roadway construction.

Net Position – the difference between total assets and total liabilities. Over time, changes in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Invested in Capital Assets, Net of Related Debt – the City's investment in its capital assets, less accumulated depreciation and any outstanding debt attributable to the assets. The resources needed to repay the debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

Restricted Net Position – resources of which use is subject to externally imposed restrictions. The City has resources set aside for debt service and capital (primary sewer-related) projects established by the City Council.

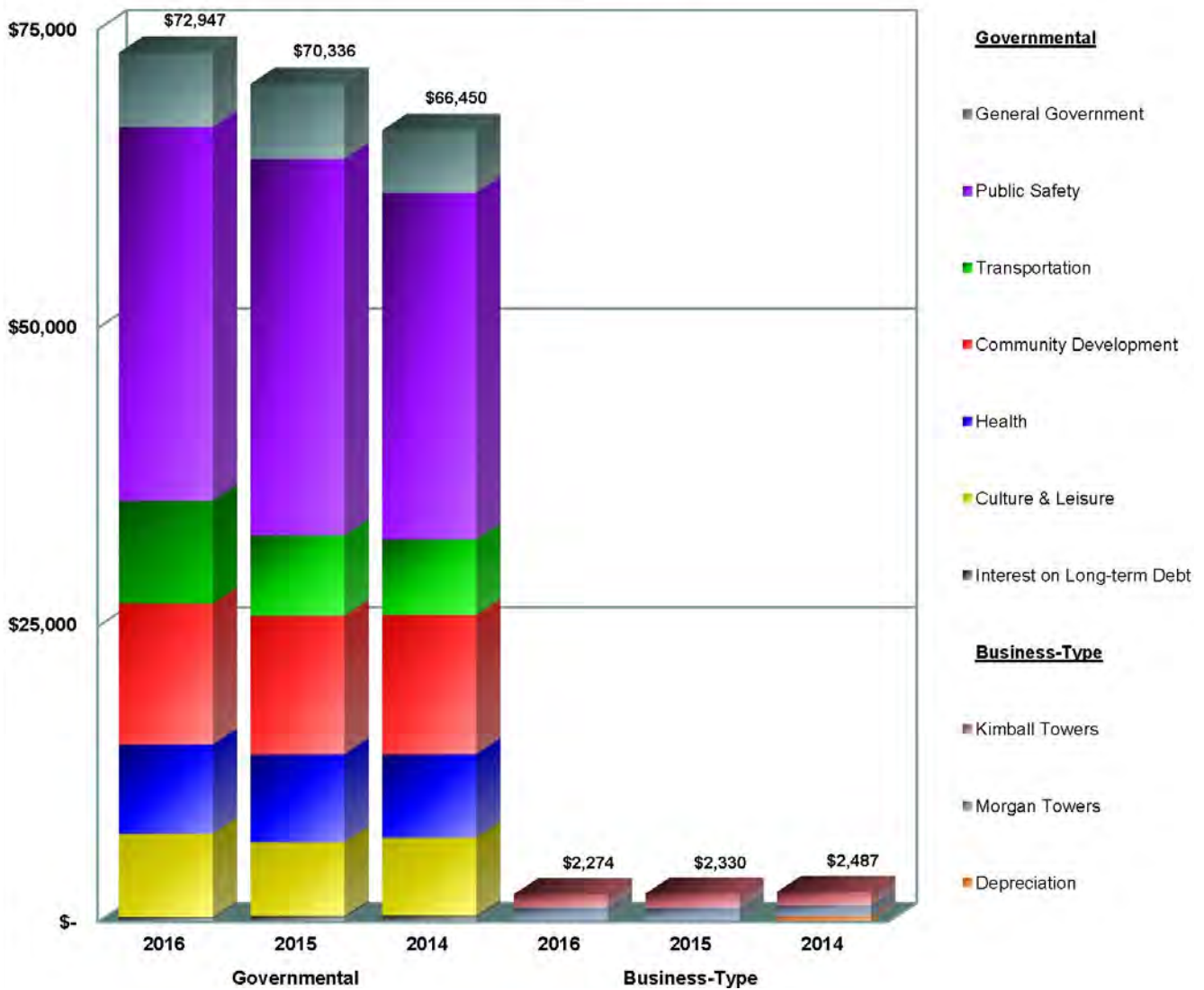
Unrestricted Net Position – Resources accessible to the City to provide services to the residents, if there were no additional revenues or resources available.

CITY FINANCIALS

Statement of Activities

The following graphs reflect revenues and expenses for governmental and business-type activities, as they relate to the program category in which the funds were collected or expended. Governmental activities include general government, public safety, transportation, community development, health, and culture and leisure. Business-type activities comprise Morgan Towers and Kimball Towers, the City's low and moderate income housing for seniors.

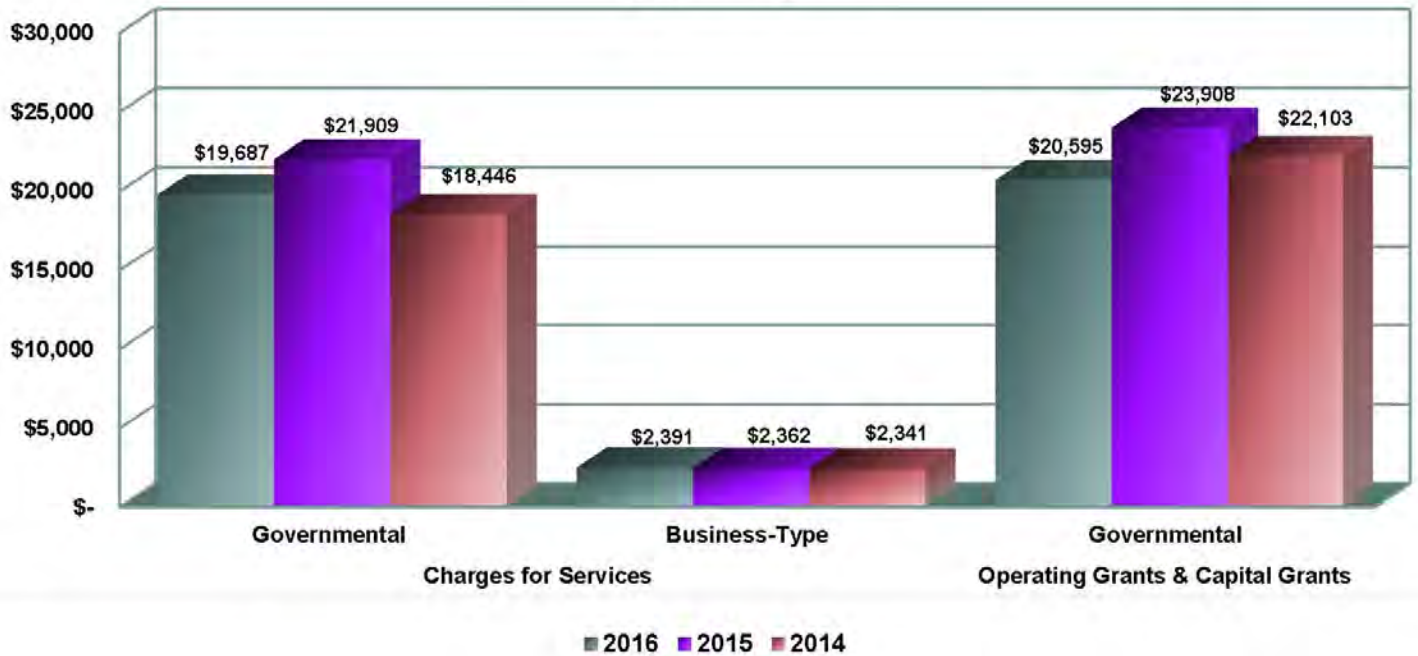
**City of National City Expenses
Governmental & Business-Type Activities
Fiscal Years 2014-2016
(in Thousands)**



The City's governmental activities expenses increased from \$70,336,000 in Fiscal Year 2015 to \$72,947,000 in Fiscal Year 2016, mainly as a result of significant growth in the acquisition costs of capital assets/items and allocation of asset depreciation in the transportation and culture and leisure activities. Expenses of business-type activities decreased as a result of a drop in operations and maintenance costs.

Statement of Activities

City of National City Program Revenues
Governmental & Business-Type Activities
Fiscal Years 2014-2016
(in Thousands)



Program Revenues – Revenues derived directly from the program operated by the City, such as user fees and charges, which reduce the cost of the function financed from the government’s general revenues.

Charges for services of governmental activities declined from \$21,909,000 to \$19,687,000 during Fiscal Year 2016 with decreases in charges from community development, health, and public safety activities the largest contributors to the change. Operating and capital grants for governmental activities decreased from \$23,908,000 to \$20,595,000 overall. This drop is the net of a \$4,100,000 downswing in capital grants and contributions, driven by a reduction in funding for transportation-related projects, offset by a \$787,000 rise in operating grants and contributions, primarily resulting from a growth in Housing Choice Voucher Program assistance. Charges for services related to business-type activities remained somewhat constant from the prior fiscal year.



CITY FINANCIALS

Governmental Funds

The City of National City maintains twenty-two individual governmental funds, including the General Fund. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements (*Statement of Net Position* and *Statement of Activities*). However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the City's near-term financing requirements.

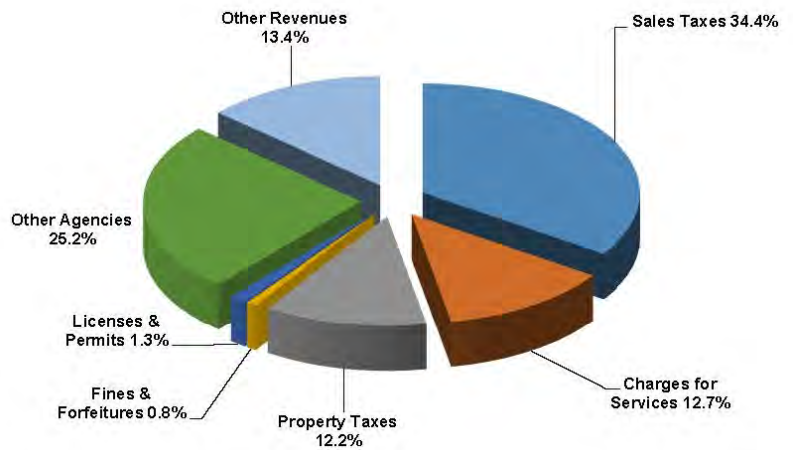
There are five types of governmental funds:

- general fund – the primary operating fund of the City; accounts for financial activity not required to be accounted for in another fund;
- special revenue funds – used to account for and report the proceeds of specific revenue sources restricted or committed to expenditures for specified purposes, other than debt service or capital projects;
- debt service funds – used to account for the receipts for, and payment of, general long-term debt principal and interest;
- capital projects funds – used to account for and report financial resources for capital outlay expenditures;
- permanent funds – used to account for and report resources restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, i.e., for the benefit of the government or its citizenry.

In addition to the General Fund, the City's major governmental funds are the Housing Fund, Housing Choice Voucher (Section 8) Fund, and Sewer Service Fund, all of which are special revenue funds. The City's capital projects, debt service, and permanent funds are considered non-major funds.

Where the Money Comes From (Revenue/Resources)

Revenue Source	(000s)	
	FY 16	FY 15
Sales Taxes	\$29,171	\$27,096
Charges for Services	10,735	10,025
Property Taxes	10,294	10,302
Fines & Forfeitures	646	886
Licenses & Permits	1,122	1,568
Other Agencies	21,382	26,791
Other Revenues	11,354	11,638
Total	\$84,704	\$88,305



The most significant source of revenue for the City is **Sales Taxes**. Sales taxes are imposed on retail transactions and are collected and administered by the State. National City receives the equivalent of 1.0% of the total taxable sales generated within the City from the state-imposed sales & use tax and an additional 1% from its voter-approved district transactions & use tax.

Other Agencies, reimbursements from other agencies - primarily the federal government, State, and Successor Agency - is the next largest revenue source.

Charges for Services is revenues collected for services provided, the majority of which is sewer service charges.

Property Taxes is ad valorem ("according to value") levies on the assessed value of real and personal property within the City. This total includes revenue for property tax in lieu of vehicle license fee ("VLF"), California's property tax - VLF "swap."

Fines & Forfeitures is penalty revenues, e.g., parking violation fines, court and traffic fines, and library fines.

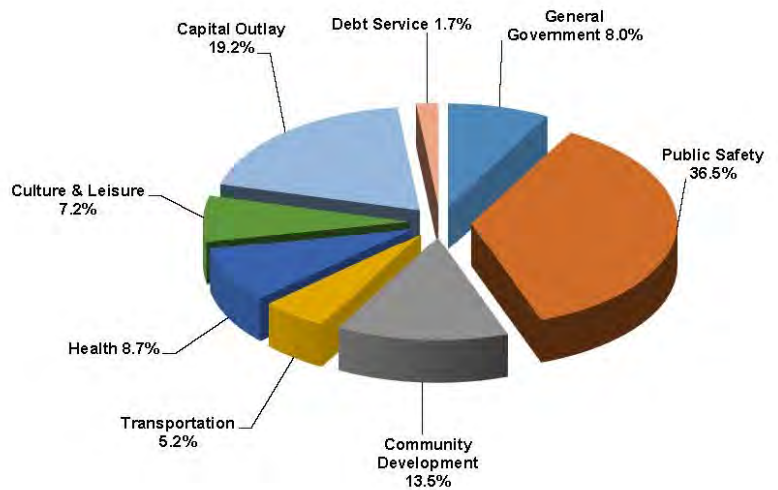
Licenses & Permits represents revenues from various activities, such as business licensing and building permits.

Other Revenues is the catch-all for revenue types that do not fall into one of the above categories.

Governmental Funds

Where the Money Goes (Expenditures/Services) (in Thousands)

Expenditure	(000s)	
	FY 16	FY 15
General Government	\$ 6,987	\$ 5,404
Public Safety	31,786	29,101
Community Development	11,753	11,174
Transportation	4,547	3,942
Health	7,588	7,180
Culture & Leisure	6,239	5,307
Capital Outlay	16,738	17,177
Debt Service	1,516	1,569
Total	\$87,154	\$80,854



General government: administrative and financial services provided for the benefit of the public and the governmental body, as a whole.

Public safety: police and fire protection of the City's residents and visitors, and building inspections.

Community Development: low- and moderate-income housing, housing inspections, code enforcement; graffiti removal, and current and advance planning

Transportation: construction, maintenance, and repair of streets and related facilities

Health: sewer- and storm drain-related extensions, maintenance, and repairs.

Culture & Leisure: provision and maintenance of cultural and leisure facilities, e.g., the City's library, aquatic center, and parks, and operations of programs benefitting citizens and visitors.

Capital Outlay: construction, acquisition, and maintenance of City buildings, infrastructure, vehicles, and equipment.

Debt Service: retirement of City debt.



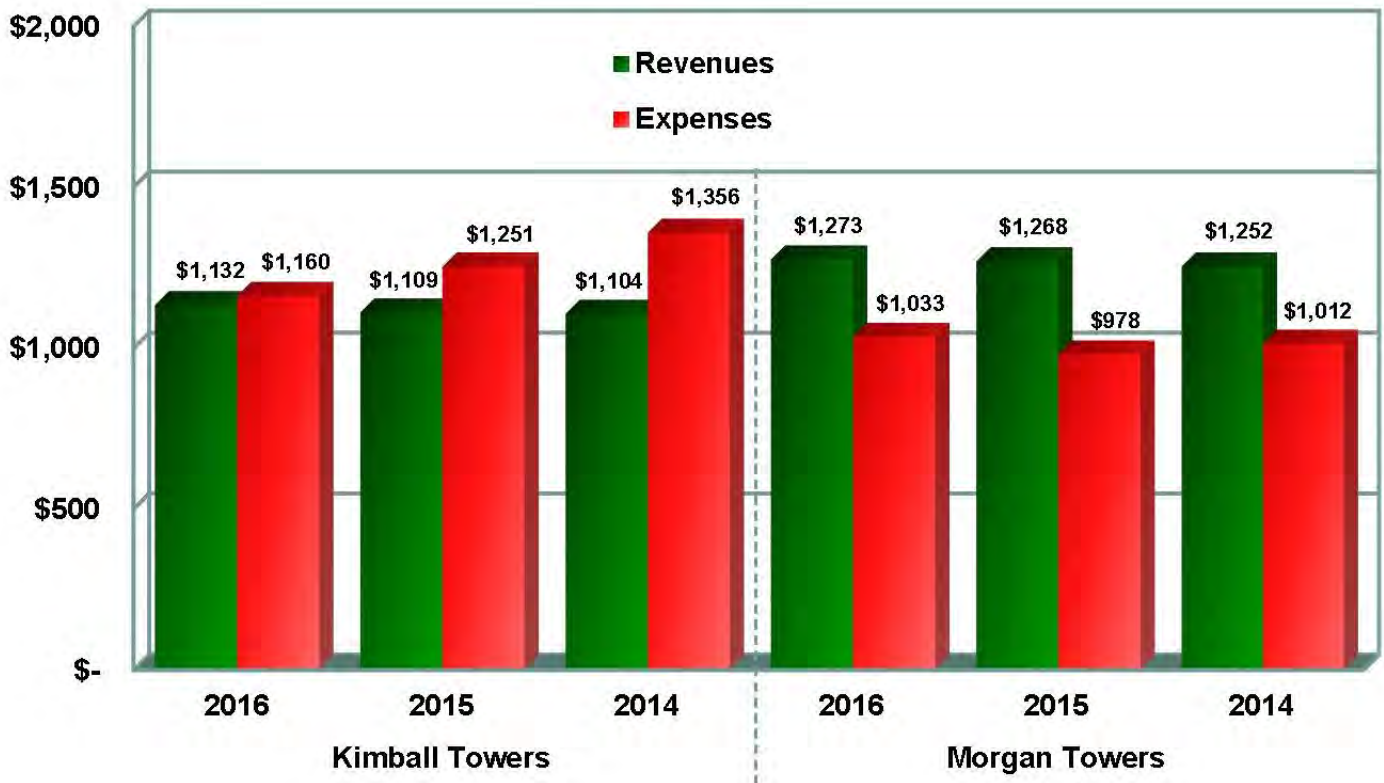
CITY FINANCIALS

Business-Type Funds

Business-type funds are used to report activities for which fees are charged to external users for goods or services in order to recover the cost of the services provided, similar to private businesses. Over time, these funds generate enough revenue to cover the costs of their operating expenses.

The City maintains two business-type funds, the Kimball Towers Fund and Morgan Towers Fund, to account for activities relating to the operations of Kimball Towers and Morgan Towers, which provide housing to low and moderate income seniors.

(in Thousands)



CAPITAL ASSETS & CITY DEBT

Capital Assets

The City's investment in capital assets for governmental and business-type activities, as of June 30, 2016, amounted to \$152,346,288 (net of accumulated depreciation). This investment includes land, rights of way, construction in progress, buildings and improvements, machinery, and infrastructure. Infrastructure assets represent the largest portion of the City's total governmental assets (37.0 percent).

Buildings and improvements represented the most significant addition to capital assets during the current fiscal year, increasing \$3,934,753 to \$30,942,733 at June 30, 2016. This increase was attributable to the completion of construction of an aquatic center and building upgrades to the City's library. Depreciation expenses during the fiscal year were \$5,126,777 for governmental activities and \$304,470 for business-type activities.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 22,011,750	\$ 20,411,750	\$ 528,382	\$ 528,382	\$ 22,540,132	\$ 20,940,132
Right-of-Way	4,245,088	4,245,088	-	-	4,245,088	4,245,088
Construction in Progress	33,043,820	29,969,669	-	-	33,043,820	29,969,669
Buildings & Improvements	25,789,266	21,571,006	5,153,467	5,436,974	30,942,733	27,007,980
Machinery & Equipment	5,015,233	3,843,217	251,228	272,191	5,266,461	4,115,408
Infrastructure	56,308,054	53,696,806	-	-	56,308,054	53,696,806
Total	\$146,413,211	\$133,737,536	\$5,933,077	\$6,237,547	\$152,346,288	\$139,975,083

City Debt

The City's total debt decreased by \$677,562 during the current fiscal year. The decrease primarily was driven by a \$1,328,170 reduction of the Notes & Loans payable balance from normal scheduled principal payments. This reduction and a decrease in the Capital Leases balance was offset by growths in the Compensated Absences, Claims Payable, and OPEB Liability balances. The City's general obligation bonds are rated "A+" by Standard & Poor's Rating Services.

City Debt

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Notes & Loans Payable	\$ 8,925,000	\$ 9,970,000	\$1,027,967	\$1,311,137	\$ 9,952,967	\$11,281,137
Capital Leases	1,723,764	1,948,686	-	-	1,723,764	1,948,686
Compensated Absences	3,783,359	3,444,318	-	-	3,783,359	3,444,318
Claims Payable	8,128,000	7,886,000	-	-	8,128,000	7,886,000
OPEB Liability	897,789	603,300	-	-	897,789	603,300
Total	\$23,457,912	\$23,852,304	\$1,027,967	\$1,311,137	\$24,485,879	\$25,163,441

INVESTMENTS

The market value of the City's cash and investments as of June 30, 2016 is as follows:

Investment	Fair Value	Investment Maturities (in Years)				
		Less than 1	1 to 2	2 to 3	3 to 4	4 to 5
LAIF ¹	\$44,761,434	\$44,761,434	\$ -	\$ -	\$ -	\$ -
Money Market Funds	31,681	31,681	-	-	-	-
San Diego Pool ²	5,082,765	5,082,765	-	-	-	-
Supranational	449,667	-	-	449,667	-	-
US Corporate	1,952,278	545,657	1,406,621	-	-	-
US Treasuries	7,099,744	2,013,816	2,097,120	1,748,999	1,239,809	-
US Agencies	13,049,264	4,078,195	4,684,227	1,888,319	1,829,745	568,778
Total	\$72,426,833	\$56,513,548	\$ 8,187,968	\$ 4,086,985	\$ 3,069,554	\$ 568,778

The weighted average maturity of the portfolio was 1.38 years.

¹ State of California's Local Agency Investment Fund
² San Diego County Treasurer's Pooled Money Fund

The City's cash and investment policies and practices are in compliance with state law and prudent investor rules.



City of National City
City Hall
1243 National City Boulevard
National City, California 91950
619-336-4330

CALIFORNIA
NATIONAL CITY
1887
INCORPORATED



National City's "Brick Row" then (1911)...



and now.