

— CALIFORNIA —
NATIONAL CITY
1887
INCORPORATED



**POPULAR ANNUAL
FINANCIAL REPORT
FISCAL YEAR ENDED
JUNE 30, 2017**

Cover Photo:

Aquatic Center and Marina, V. Uribe (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, 2017. 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 2017. 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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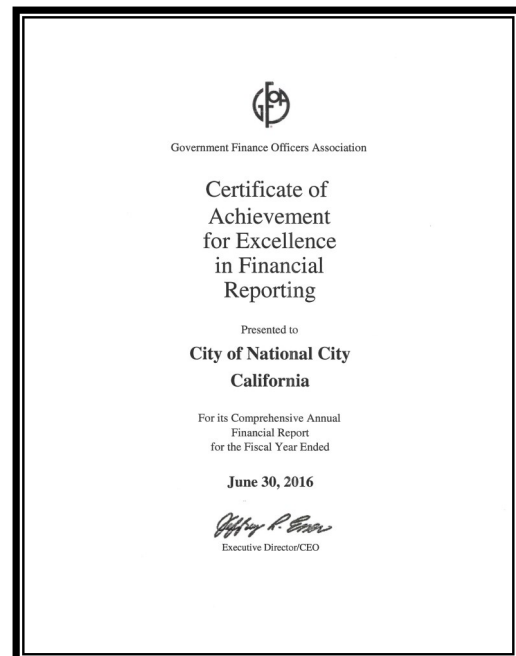
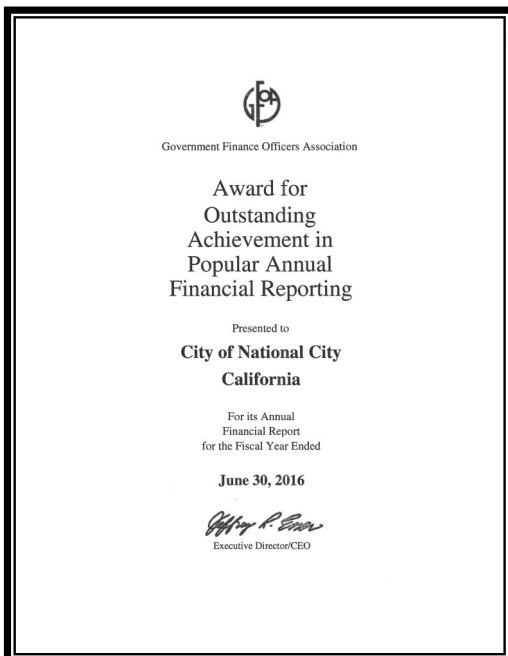
AWARDS

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, 2016. 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.

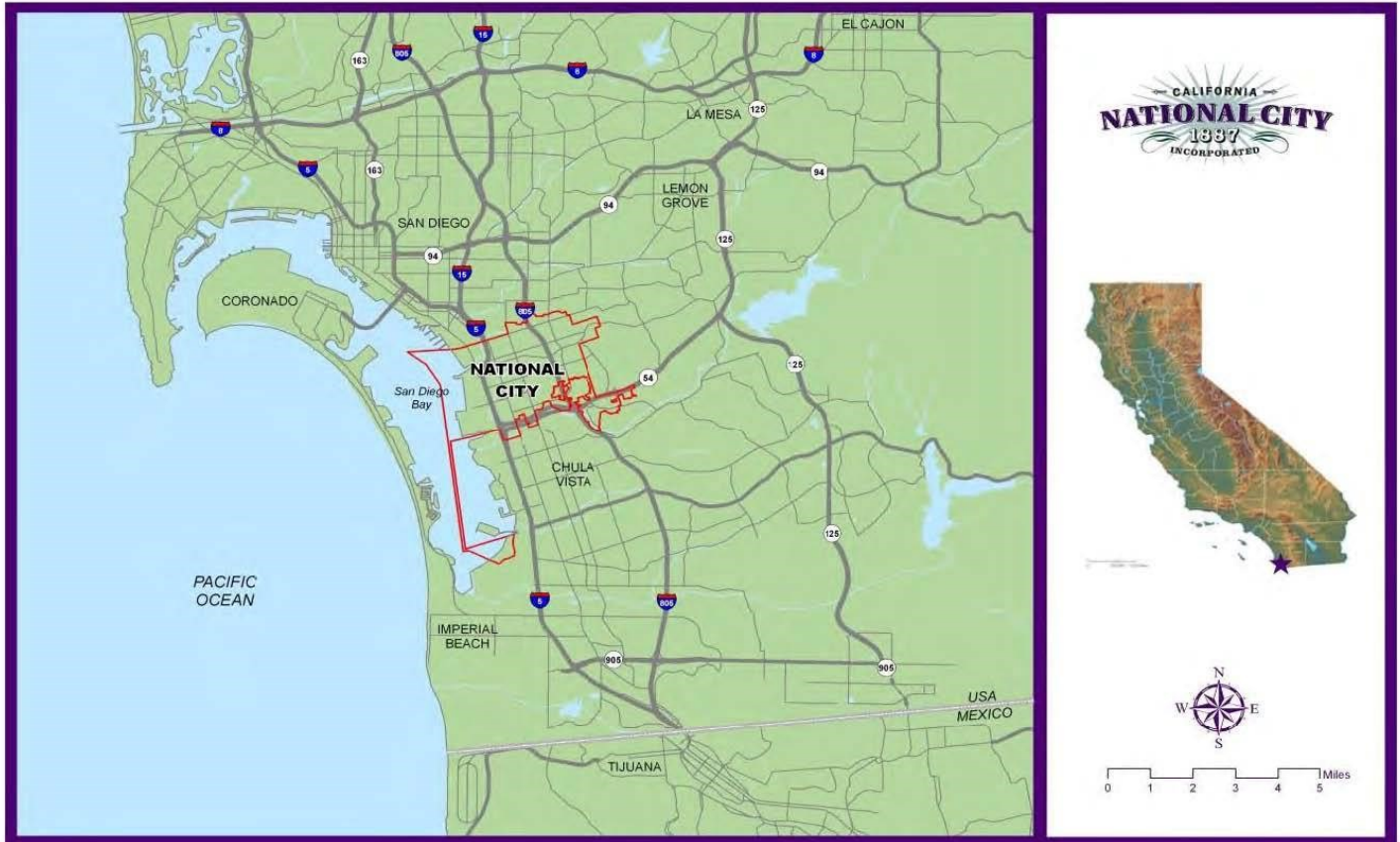
In addition to receiving the Award for Outstanding Achievement in Popular Annual Financial Reporting, the City of National City CAFR for the fiscal year ended June 30, 2016 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the GFOA. The Certificate of Achievement is 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
2017	61,210	\$ 17,132	\$1,048,669,000	5.9%

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

Race	% of Pop.
Hispanic or Latino	57.3
Asian	16.6
White	17.8
Black or African American	4.8
Native Hawaiian / Other Pacific Islander	0.6
American Indian or Alaska Native	0.4
Other Race(s)	2.6

Age	% of Pop.
Under 5 years	6.9
5 to 17 years	17.4
18 to 44 years	42.6
45 to 61 years	18.8
62 to 64 years	2.4
65 years and over	11.9
Median age (years)	31.1

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

National City Full-time Equivalent Positions	
<u>General Government</u>	
Administration	24.00
Finance/Purchasing	17.25
Community Development	55.83
<u>Public Safety</u>	
Police	130.50
Fire & Building	52.00
<u>Engineering & Public Works</u>	
Engineering	13.00
Public Works	46.50
<u>Housing, Grants, & Asset Management</u>	26.00
Total	365.08



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 61,210 – 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 2018 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
2017-2022**

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:

- Westside Infill Transit-Oriented Development Affordable Housing Project (Phase I);
- Plaza Boulevard Widening (Phase I);
- Kimball Park Improvements;
- Sewer Replacement and Upsizing Project; and
- Kimball Park Low-Impact Development and Paradise Creek Restoration.

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. And the balance of the Facilities Maintenance Reserve, established to begin to pre-fund deferred maintenance costs of City facilities, is \$2.5 million.

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 literacy, homework help, summer reading, computer, and craft programs; US citizenship classes; free book week; movie nights at the library and City parks; Walk to School Day; 1-Mile Fun Run; rowing and kayaking lessons; Community Service Day; yoga classes; National Night Out BBQ and 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, 2017 and 2016.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Assets						
Current & Other Assets	\$109,304,350	\$106,318,129	\$ 2,437,382	\$ 2,310,402	\$111,741,732	\$108,628,531
Capital Assets, Net	151,758,623	146,413,209	5,721,624	5,933,077	157,480,247	152,346,286
Total Assets	261,062,973	252,731,338	8,159,006	8,243,479	269,221,979	260,974,817
Deferred Outflows of Resources	19,505,299	7,396,038	-	-	19,505,299	7,396,038
Liabilities						
Current Liabilities	18,433,134	12,160,183	583,316	481,673	19,016,450	12,641,856
Long-term Liabilities	113,980,793	96,083,125	407,397	725,833	114,388,190	96,808,958
Total Liabilities	132,413,927	108,243,308	990,713	1,207,506	133,404,640	109,450,814
Deferred Inflows of Resources	5,221,122	7,849,166	-	-	5,221,122	7,849,166
Net Position:						
Invested in Capital Assets, Net of Related Debt	140,128,868	134,444,245	4,991,859	4,905,110	145,120,727	139,349,355
Restricted	32,497,958	35,747,699	2,185,518	2,031,385	34,683,476	37,779,084
Unrestricted	(29,693,603)	(26,157,042)	(9,084)	99,478	(29,702,687)	(26,057,564)
Total Net Position	\$142,933,223	\$144,034,902	\$ 7,168,293	\$ 7,035,973	\$150,101,516	\$151,070,875

The \$969,359 (0.6%) decrease in the City's total net position resulted from a decrease in governmental activities of \$1,101,679 (0.8%) and growth in business-type activities of \$132,320 (1.9%). The decrease in governmental activities net position was primarily due to a prior period adjustment of \$4,024,282 for the implementation of Governmental Accounting Standard Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and an excess of revenues over expenses of \$2,922,603. The increase in business-type activities' net position was largely 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.

Deferred Outflows of Resources – a consumption of net assets that is applicable to a future reporting period.

Deferred Inflows of Resources – an acquisition of net assets that is applicable to a future reporting period.

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.

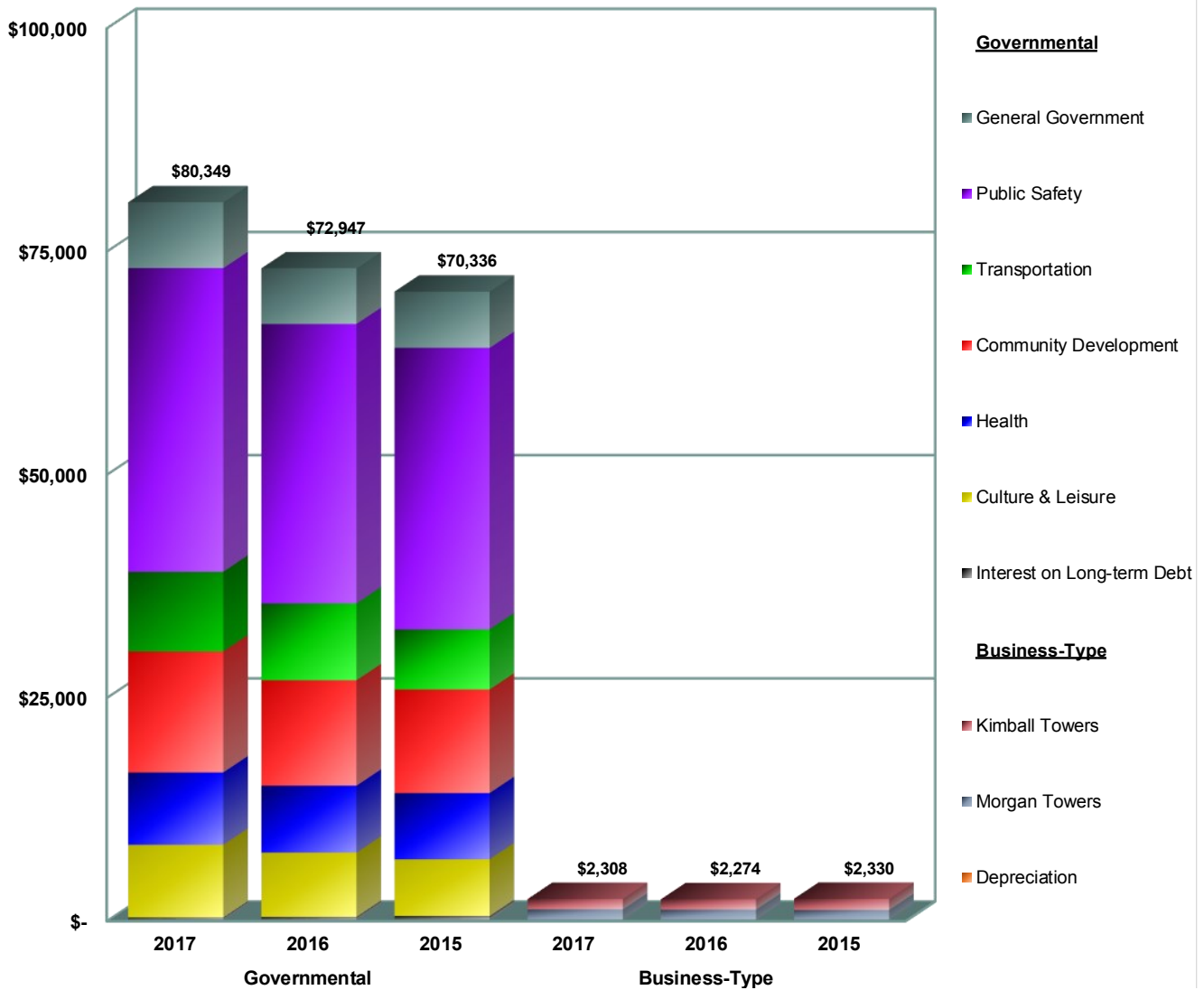
Restricted Net Position – resources of which use is subject to externally imposed restrictions. The City has resources set aside for debt service and capital (primary sewer-related) projects established by the City Council.

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

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.

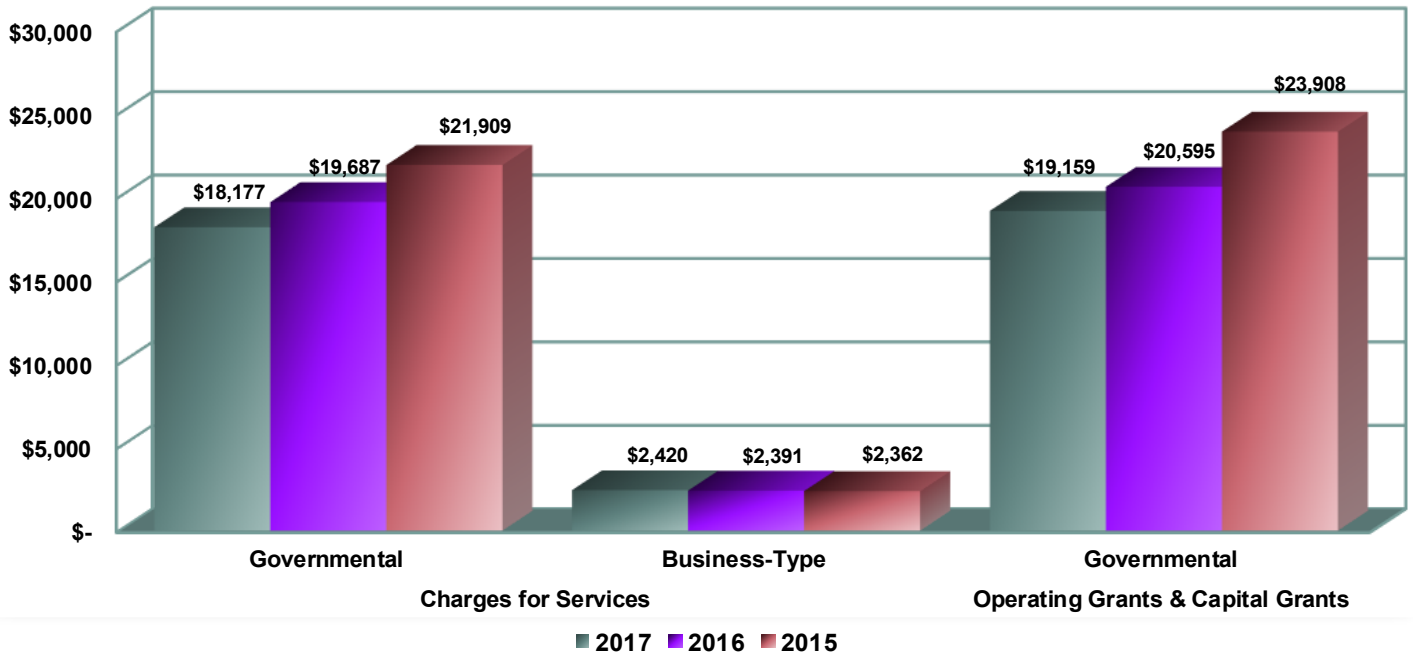
**City of National City Expenses
Governmental & Business-Type Activities
Fiscal Years 2015-2017**
(in Thousands)



The City's governmental activities expenses increased from \$72,947,000 in Fiscal Year 2016 to \$80,349,000 in Fiscal Year 2017, mainly as a result of significant growth in overall operational expenses for public safety, community development, and general government. Expenses of business-type activities increased as a result of a rise in operations and maintenance costs.

Statement of Activities

**City of National City Program Revenues
Governmental & Business-Type Activities
Fiscal Years 2015-2017**
(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 \$19,687,000 to \$18,177,000 during Fiscal Year 2017 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 \$20,595,000 to \$19,159,000 overall. This drop is the net of a \$1,985,000 increase in operating grants and contributions, largely for the Housing Choice Voucher and HOME Programs, and a drop of \$3,421,000 capital grants and contributions, primarily in the transportation and culture and leisure functions. Charges for services related to business-type activities remained somewhat constant in relation to the prior fiscal year.



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.

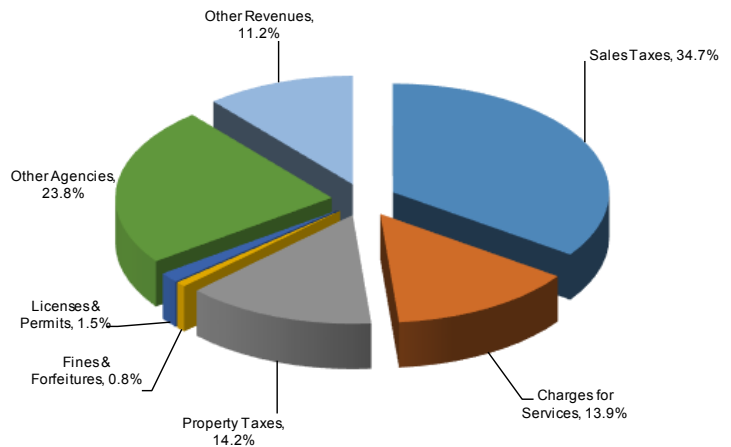
There are five types of governmental funds:

- 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 17	FY 16
Sales Taxes	\$29,285	\$29,171
Charges for Services	11,722	10,735
Property Taxes	11,949	10,294
Fines & Forfeitures	643	646
Licenses & Permits	1,281	1,122
Other Agencies	20,052	21,382
Other Revenues	9,413	11,354
Total	\$84,345	\$84,704



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 and use tax and an additional 1% from its voter-approved district transactions and 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.

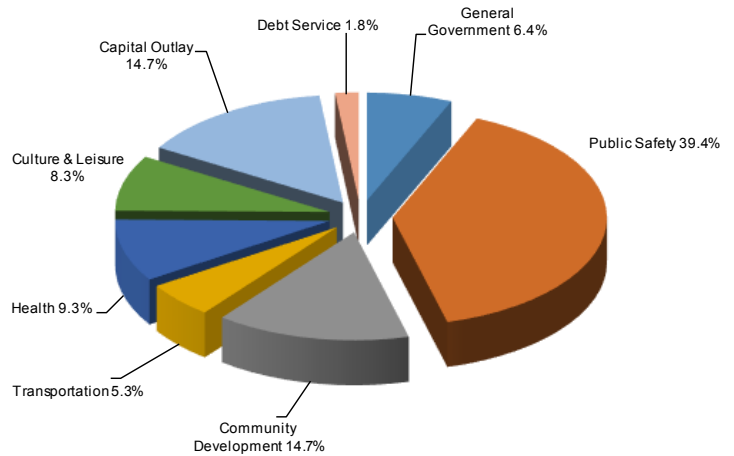
Licenses & Permits represents revenues from various activities, such as business licensing and building permits.

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 17	FY 16
General Government	\$ 5,673	\$ 6,987
Public Safety	34,754	31,786
Community Development	12,910	11,753
Transportation	4,688	4,547
Health	8,227	7,588
Culture & Leisure	7,352	6,239
Capital Outlay	12,938	16,738
Debt Service	1,554	1,516
Total	\$88,096	\$87,154



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.



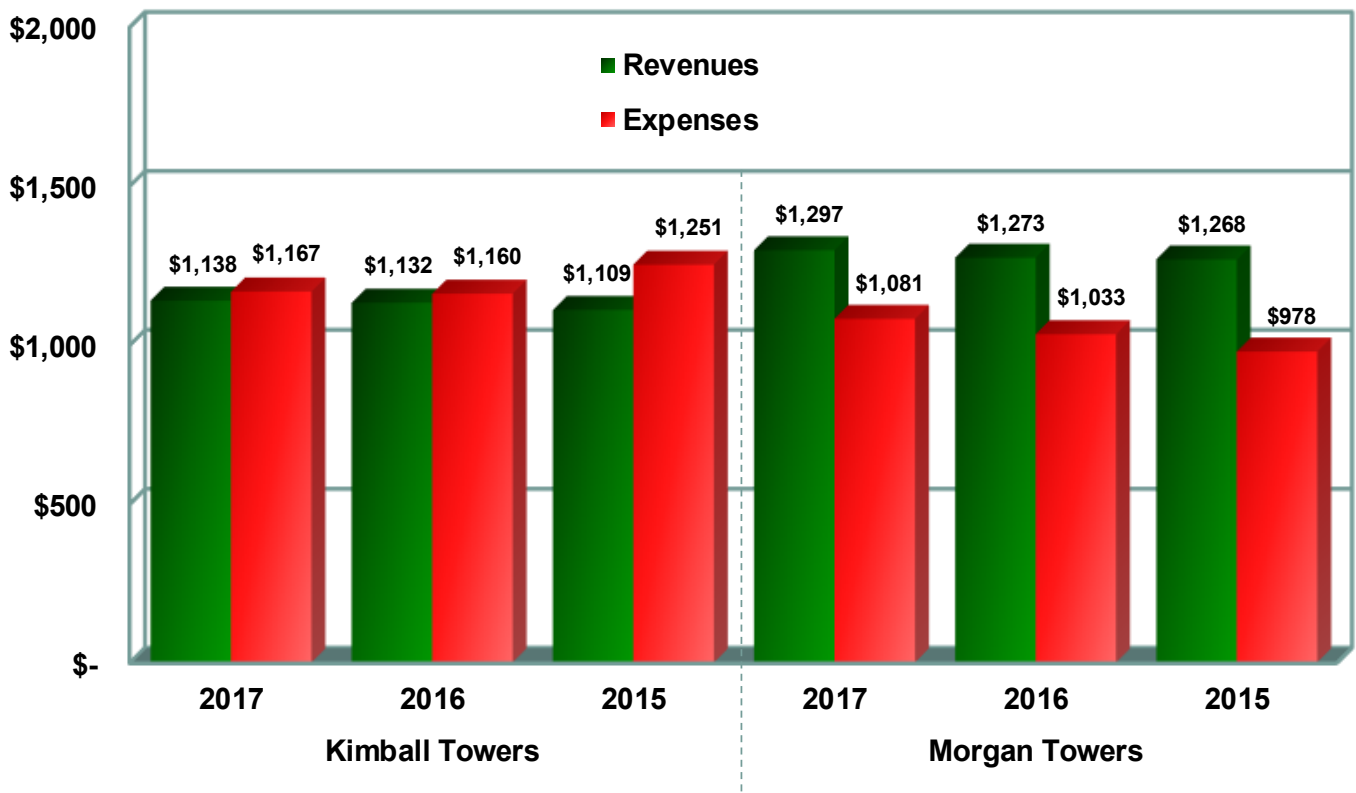
CITY FINANCIALS

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, 2017, amounted to \$157,691,700 (net of accumulated depreciation). This investment includes land, rights of way, construction in progress, buildings and improvements, machinery, infrastructure, and radio rights. Infrastructure assets represent the largest portion of the City's total governmental assets (46.0 percent).

Infrastructure represented the most significant addition to capital assets during the current fiscal year, increasing \$16,303,640 to \$72,611,694 at June 30, 2017. This increase was attributable to the completion of several road-related capital improvement projects and building improvements. Depreciation expenses during the fiscal year were \$6,280,426 for governmental activities and \$298,438 for business-type activities.

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 22,011,750	\$ 22,011,750	\$ 528,382	\$ 528,382	\$ 22,540,132	\$ 22,540,132
Right-of-Way	4,245,088	4,245,088	-	-	4,245,088	4,245,088
Construction in Progress	15,082,792	33,043,820	-	-	15,082,792	33,043,820
Buildings & Improvements	29,856,959	25,789,266	5,153,467	5,153,467	35,010,426	30,942,733
Machinery & Equipment	6,743,115	5,015,233	251,228	251,228	6,994,343	5,266,461
Infrastructure	72,611,694	56,308,054	-	-	72,611,694	56,308,054
Radio Rights	1,207,225	-	-	-	1,207,225	-
Total	\$151,758,623	\$146,413,211	\$5,933,077	\$5,933,077	\$157,691,700	\$152,346,288

City Debt

The City's total debt, excluding bond premium, increased by \$5,360,846 during the current fiscal year. The increase was primarily driven by a \$4,218,608 increase in the City's OPEB liability due to a reporting requirement change. Claims payable liability growth of \$1,366,000 also contributed to the increase. The City's general obligation bonds are rated "A+" by Standard & Poor's Rating Services.

City Debt

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Notes & Loans Payable	\$ 8,988,837	\$ 8,925,000	\$725,833	\$1,027,967	\$ 9,714,670	\$9,952,967
Capital Leases	1,494,160	1,723,764	-	-	1,494,160	1,723,764
Compensated Absences	4,027,498	3,783,359	-	-	4,027,498	3,783,359
Claims Payable	9,494,000	8,128,000	-	-	9,494,000	8,128,000
OPEB Liability	5,116,397	897,789	-	-	5,116,397	897,789
Total	\$29,120,892	\$23,457,912	\$725,833	\$1,027,967	\$29,846,725	\$24,485,879

INVESTMENTS

The market value of the City's cash and investments as of June 30, 2017 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	\$41,387,013	\$41,387,013	\$ -	\$ -	\$ -	\$ -
Money Market Funds	7,023,964	7,023,964	-	-	-	-
San Diego Pool ²	8,092,000	8,092,000	-	-	-	-
Supranational	449,667	449,667	-	-	-	-
US Corporate	1,694,436	999,822	406,798	287,816	-	-
US Treasuries	7,684,503	2,097,119	1,748,999	3,838,385	-	-
US Agencies	12,821,398	4,684,227	2,738,013	5,399,157	-	-
Total	\$79,152,981	\$64,733,812	\$ 4,893,810	\$ 9,525,358	\$ -	\$ -

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



and now.