

— CALIFORNIA —  
**NATIONAL CITY**  
1887  
INCORPORATED



**POPULAR ANNUAL  
FINANCIAL REPORT**

**FISCAL YEAR ENDED  
JUNE 30, 2018**

**Cover Photo:**

*St. Patrick's Day, C. Sullivan (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, 2018. 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 2018. 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](http://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](mailto: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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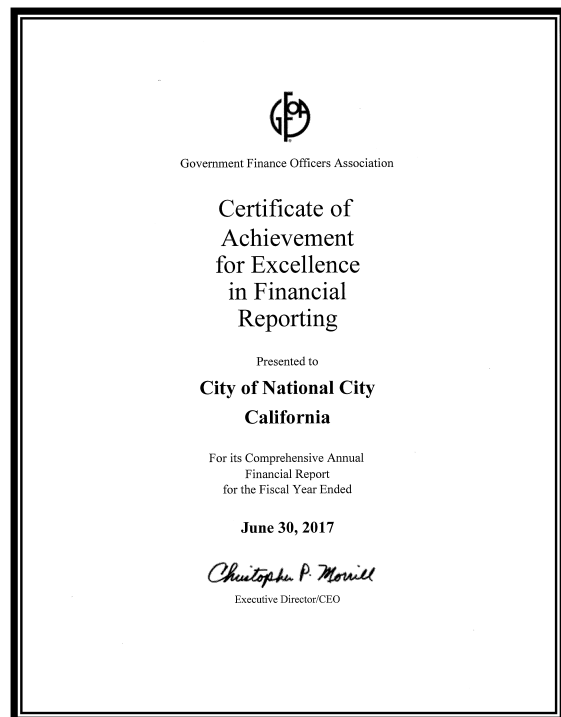
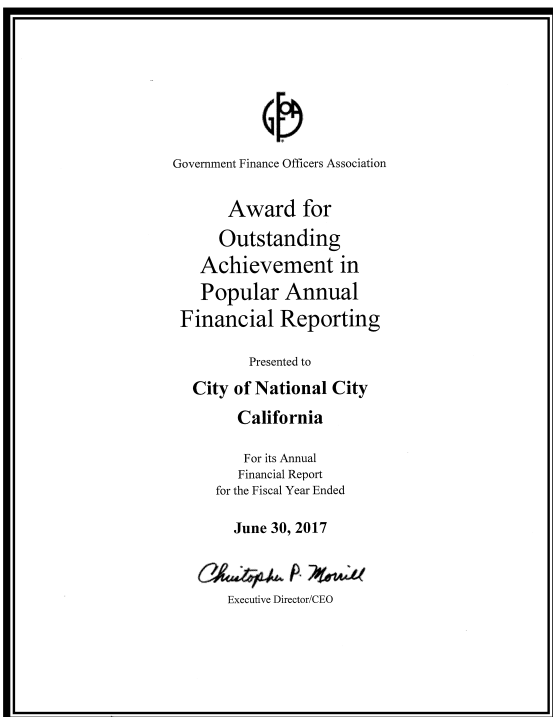
## AWARDS

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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, 2017. 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.

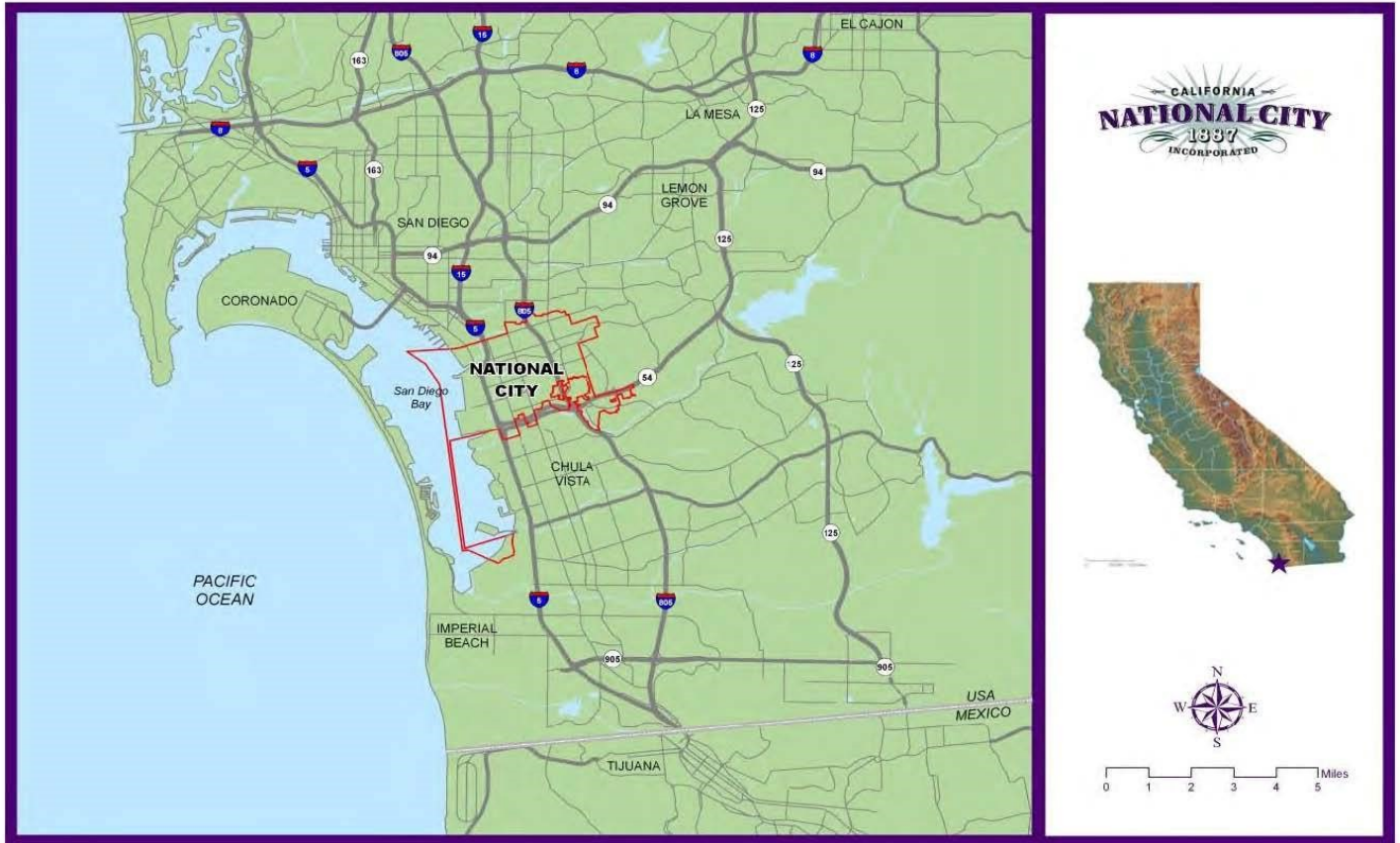
In addition to receiving the Award for Outstanding Achievement in Popular Annual Financial Reporting, the City of National City CAFR for the fiscal year ended June 30, 2017 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the GFOA. The Certificate of Achievement is 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.

An Award for Outstanding Achievement in Popular Annual Financial Reporting and a Certificate of Achievement for Excellence in Financial Reporting are each valid for a period of one year. We believe our current PAFR and CAFR continue to meet the programs’ requirements, and we are submitting both to the GFOA for consideration for another award.



## 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
2018	62,257	\$ 17,329	\$1,078,906,000	4.1%

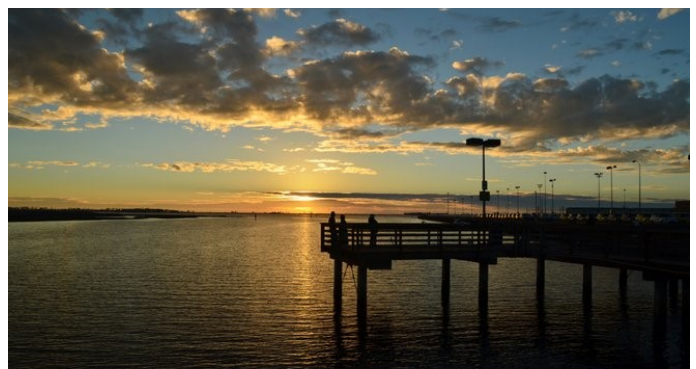
Sources: California Department of Finance, United States Census Bureau, and California Employment Development Department

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	22.00
Finance/Purchasing	15.77
Community Development	56.83
<u>Public Safety</u>	
Police	126.98
Fire & Building	51.00
<u>Engineering &amp; Public Works</u>	
Engineering	13.00
Public Works	47.50
<u>Housing &amp; Economic Development</u>	24.00
<b>Total</b>	<b>357.08</b>



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## ECONOMIC PROFILE

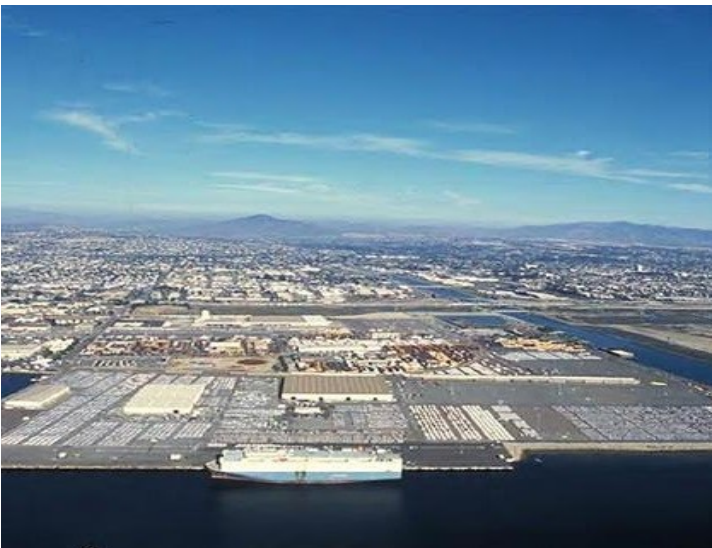
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National City, San Diego County's second oldest city, is centrally located in a thriving bi-national region of five million consumers. It is ten minutes from everywhere and positioned for prosperity, with proximity to the San Diego Bay, the US-Mexico 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 State Routes 54 and 15, and it is serviced by the San Diego Metropolitan Transit System (bus and rail transportation) 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 62,000 – 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 250,000 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.



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## STRATEGIC PLAN INITIATIVES

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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:

- Sewer Replacement and Upsizing Project;
- Westside Pedestrian & Bicycle Enhancements;
- 18th Street Community Corridor – Phase II;
- Division Street Traffic Calming – Phase I;
- Wayfinding Signage and Community Gateways; and
- El Toyon & Las Palmas Lighting Improvements.

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 \$2.0 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 & movie; and holiday tree-lighting and ice skating. The City also co-sponsors a 4<sup>th</sup> 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, 2018 and 2017.

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current & Other Assets	\$106,206,286	\$109,304,350	\$ 2,628,637	\$ 2,437,382	\$108,834,923	\$111,741,732
Capital Assets, Net	157,090,410	151,758,623	5,407,409	5,721,624	162,497,819	157,480,247
<b>Total Assets</b>	<b>263,296,696</b>	<b>261,062,973</b>	<b>8,036,046</b>	<b>8,159,006</b>	<b>271,332,742</b>	<b>269,221,979</b>
Deferred Outflows of Resources	23,814,784	19,505,299	-	-	23,814,784	19,505,299
<b>Liabilities</b>						
Current Liabilities	15,899,941	18,433,134	616,871	587,248	16,516,812	19,020,382
Long-term Liabilities	127,918,861	113,980,793	59,506	403,465	127,978,367	114,384,258
<b>Total Liabilities</b>	<b>143,818,802</b>	<b>132,413,927</b>	<b>676,377</b>	<b>990,713</b>	<b>144,495,179</b>	<b>133,404,640</b>
Deferred Inflows of Resources	3,762,217	5,221,122	-	-	3,762,217	5,221,122
<b>Net Position:</b>						
Invested in Capital Assets, Net of Related Debt	141,748,074	140,128,868	5,003,945	4,995,791	146,752,019	145,124,659
Restricted	31,566,245	34,134,528	2,333,153	2,185,518	33,899,398	36,320,046
Unrestricted	(33,783,858)	(31,330,173)	22,571	(13,016)	(33,761,287)	(31,343,189)
<b>Total Net Position</b>	<b>\$139,530,461</b>	<b>\$142,933,223</b>	<b>\$ 7,359,669</b>	<b>\$ 7,168,293</b>	<b>\$146,890,130</b>	<b>\$150,101,516</b>

The \$3,211,386 (2.1%) decrease in the City's total net position resulted from a decrease in governmental activities of \$3,402,762 (2.4%) and growth in business-type activities of \$191,376 (2.7%). The decrease in governmental activities net position was primarily due to a deficiency of revenues over expenses resulting from increased spending on general government and public safety. The increase in business-type activities' net position was largely due to an increase in rental income and decreases in the operating and administration 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.

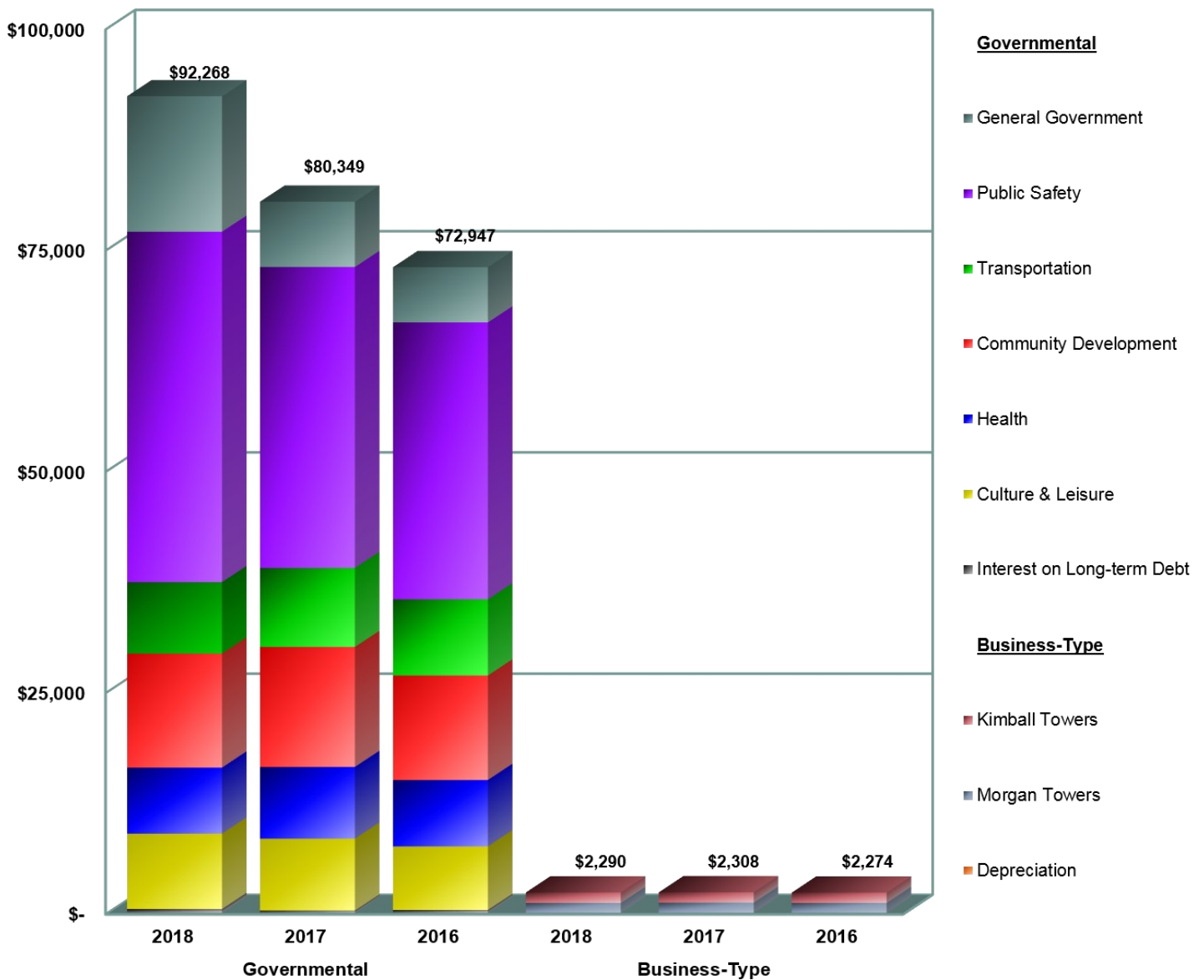
**Unrestricted Net Position** – Resources accessible to the City to provide services to the residents, if there were no additional revenues or resources available.

# CITY FINANCIALS

## Statement of Activities

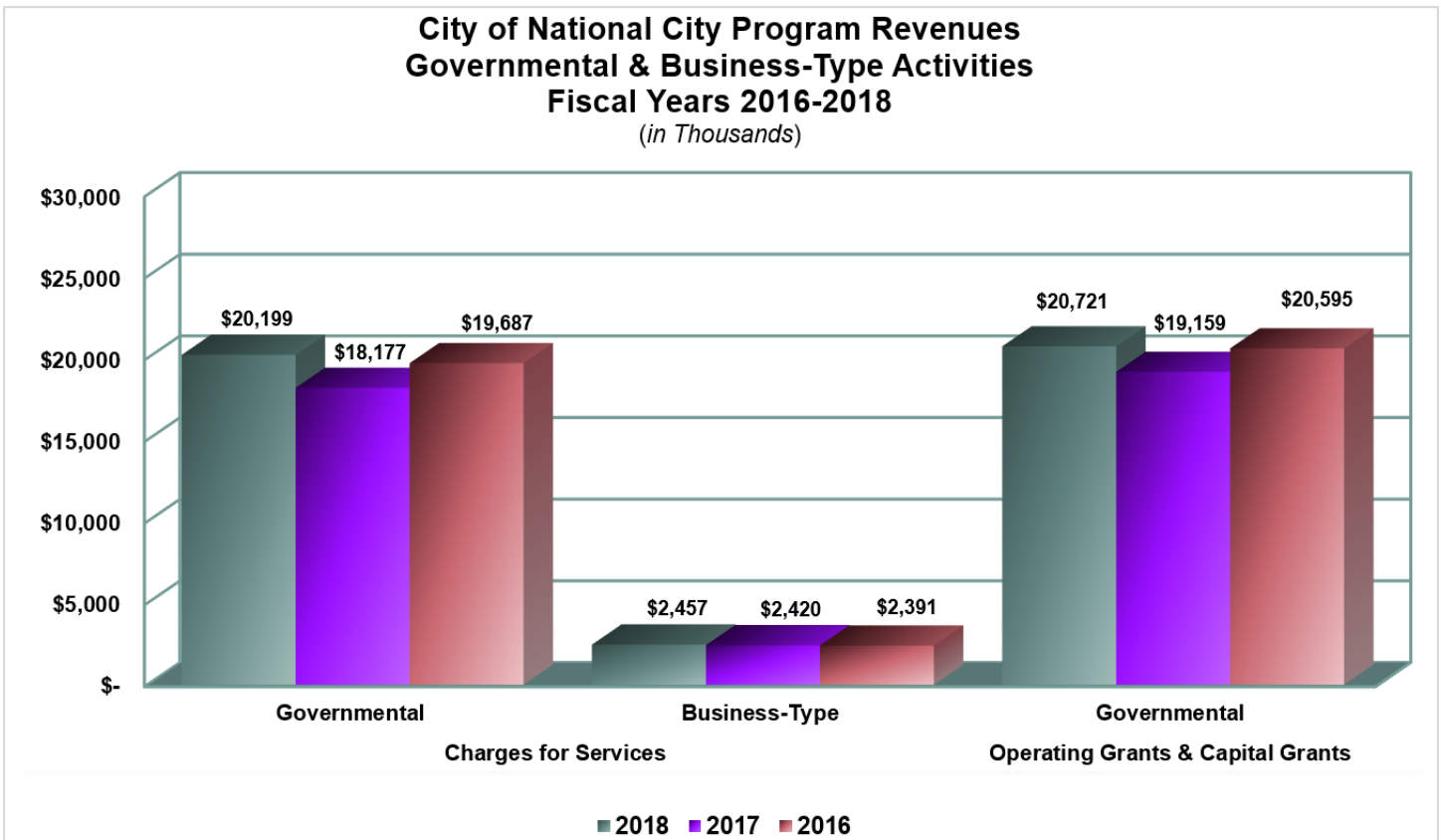
The following graphs reflect revenues and expenses for governmental and business-type activities, as they relate to the program category in which the funds were collected or expended. Governmental activities include general government, public safety, transportation, community development, health, and 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 2016-2018**  
*(in Thousands)*



The City's governmental activities expenses increased from \$80,349,004 in Fiscal Year 2017 to \$92,268,390 in fiscal year 2018, mainly as a result of significant growth in overall operational expenses for general government and public safety. Expenses of business-type activities decreased as a result of a drop in operating and administration costs.

## Statement of Activities



**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 increased from \$18,177,006 to \$20,199,048 during fiscal year 2018 with increases in charges from community development, health, and public safety activities the largest contributors to the change. Operating and capital grants for governmental activities increased from \$19,159,322 to \$20,721,272 overall. This increase is the net of a \$974,114 decrease in operating grants & contributions, particularly in community development, and an increase of \$2,536,064 capital grants and contributions, primarily from transportation grants. Charges for services related to business-type activities remained somewhat constant from the prior fiscal year.



# CITY FINANCIALS

## Governmental Funds

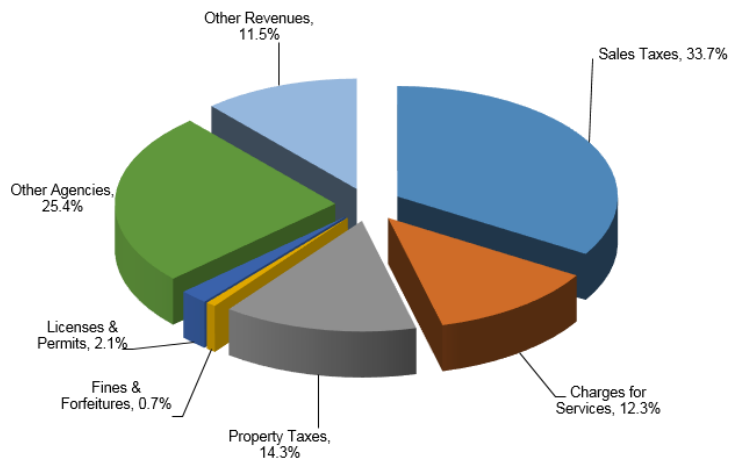
The City of National City maintains twenty-two individual governmental funds, including the General Fund. Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements (*Statement of Net Position* and *Statement of Activities*). 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.

Revenue Source	(000s)	
	FY 18	FY 17
Sales Taxes	\$30,085	\$29,285
Charges for Services	11,011	11,722
Property Taxes	12,721	11,949
Fines & Forfeitures	663	643
Licenses & Permits	1,879	1,281
Other Agencies	22,672	20,052
Other Revenues	10,232	9,413
<b>Total</b>	<b>\$89,263</b>	<b>\$84,345</b>



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.

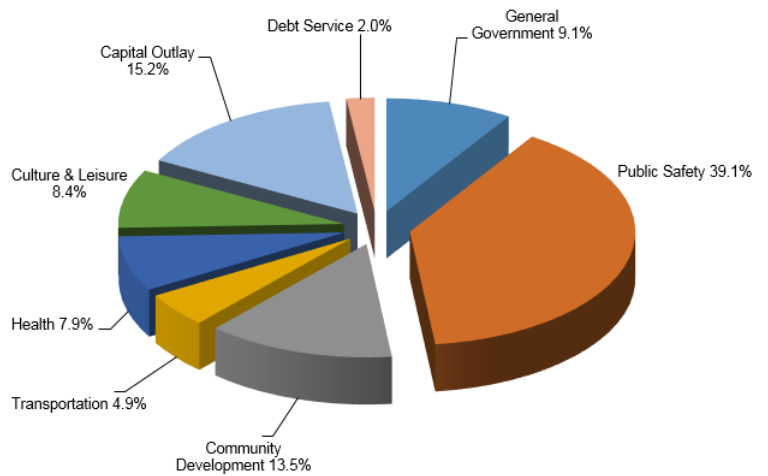
**Licenses & Permits** represents revenues from various activities, such as business licensing and building permits.

**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 18	FY 17
General Government	\$ 8,763	\$ 5,673
Public Safety	37,536	34,754
Community Development	12,942	12,910
Transportation	4,732	4,688
Health	7,544	8,227
Culture & Leisure	8,039	7,352
Capital Outlay	14,561	12,938
Debt Service	1,940	1,554
<b>Total</b>	<b>\$96,057</b>	<b>\$88,096</b>



**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.

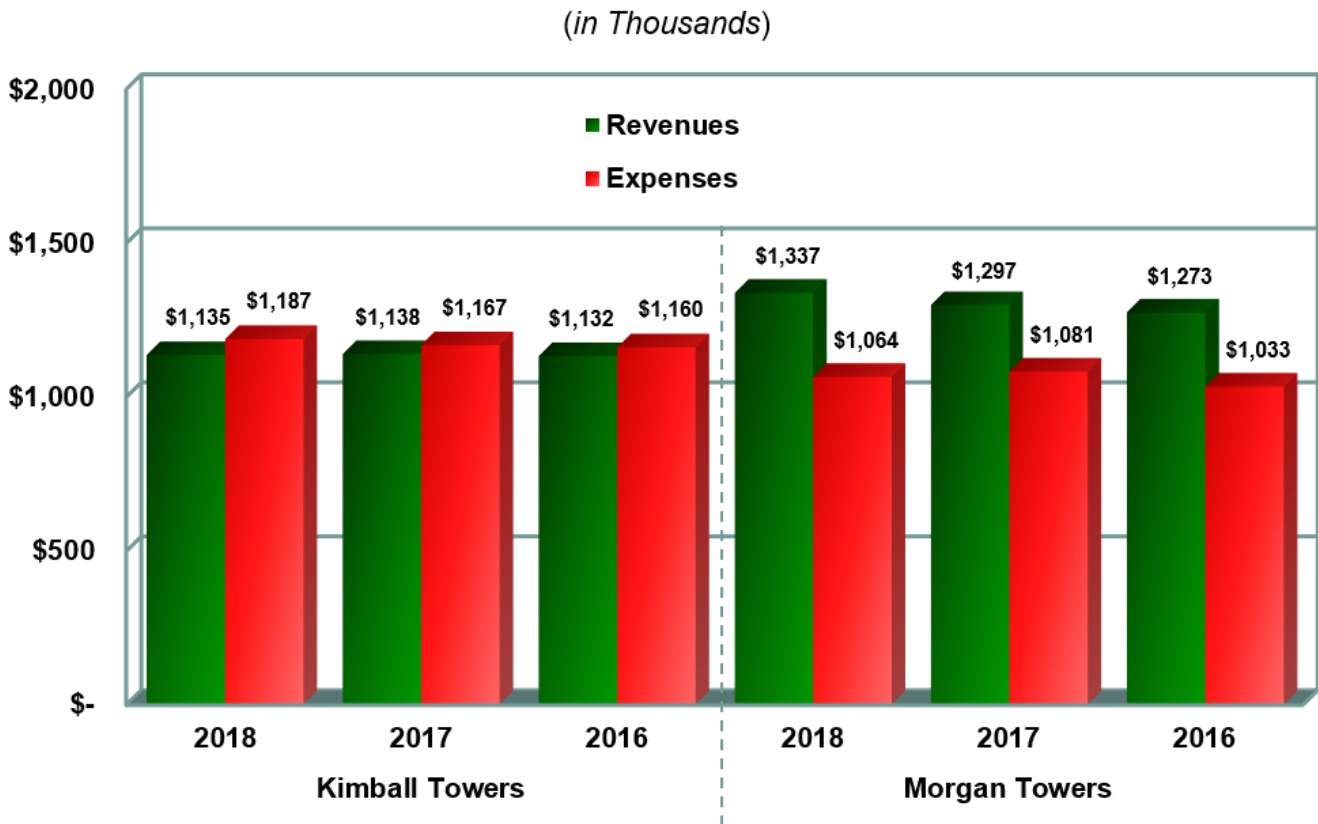


# CITY FINANCIALS

## 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.



# CAPITAL ASSETS & CITY DEBT

## Capital Assets

The City's investment in capital assets for governmental and business-type activities, as of June 30, 2018, amounted to \$162,497,819 (net of accumulated depreciation). This investment includes land, rights-of-ways, construction in progress, buildings and improvements, machinery, and infrastructure. Infrastructure assets, which include radio rights, represent the largest portion of the City's total governmental assets (49.7%).

Infrastructure also represented the most significant addition to capital assets during the current fiscal year, increasing \$6,921,747 to \$80,740,666 at June 30, 2018. The most significant contributors to the growth were the completion of a sewer replacement and upsizing project and various street projects. Depreciation expenses during the fiscal year were \$6,577,157 for governmental activities and \$314,215 for business-type activities.

### Capital Assets (Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 22,011,750	\$ 22,011,750	\$ 528,382	\$ 528,382	\$ 22,540,132	\$ 22,540,132
Rights-of-Ways	4,245,088	4,245,088	-	-	4,245,088	4,245,088
Construction in Progress	14,340,585	15,082,792	-	-	14,340,585	15,082,792
Buildings & Improvements	28,564,089	29,856,959	4,685,090	4,962,195	33,249,179	34,819,154
Machinery & Equipment	7,185,232	6,743,115	193,937	231,047	7,382,169	6,974,162
Infrastructure	80,740,666	73,818,919	-	-	80,740,666	73,818,919
<b>Total</b>	<b>\$157,090,410</b>	<b>\$151,758,623</b>	<b>\$5,407,409</b>	<b>\$5,721,624</b>	<b>\$162,497,819</b>	<b>\$157,480,247</b>

## City Debt

The City's total debt, excluding bond premium, increased by \$3,299,533 during the current fiscal year. The net increase primarily resulted from the issuance of two bonds related to clean energy totaling \$5,523,602 and decreases in other debt due to normally scheduled payments totaling \$1,444,099. The City's general obligation bonds are rated "A+" by Standard & Poor's Rating Services.

### City Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Notes & Loans Payable	\$ 13,059,285	\$ 8,988,837	\$403,464	\$725,833	\$ 13,462,749	\$ 9,714,670
Capital Leases	1,264,425	1,494,160	-	-	1,264,425	1,494,160
Compensated Absences	3,755,968	4,027,498	-	-	3,755,968	4,027,498
Claims Payable	9,395,000	9,494,000	-	-	9,395,000	9,494,000
OPEB Liability	5,268,116	5,116,397	-	-	5,268,116	5,116,397
<b>Total</b>	<b>\$32,742,794</b>	<b>\$29,120,892</b>	<b>\$403,464</b>	<b>\$725,833</b>	<b>\$33,146,258</b>	<b>\$29,846,725</b>

# INVESTMENTS

The market value of the City's cash and investments as of June 30, 2018 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 <sup>1</sup>	\$36,052,050	\$36,052,050	\$ -	\$ -	\$ -	\$ -
Money Market Funds	596,492	596,492	-	-	-	-
San Diego Pool <sup>2</sup>	8,228,583	8,228,583	-	-	-	-
Supranational	954,387	452,579	-	501,808	-	-
Negotiable CD	1,133,335	1,133,335	-	-	-	-
Commercial Paper	1,103,510	1,103,510	-	-	-	-
ABS	1,968,424	-	611,780	653,057	703,587	-
US Corporate	5,308,779	530,418	1,465,941	2,539,705	391,313	381,403
US Treasuries	7,843,870	1,730,617	2,929,291	2,010,834	1,173,128	-
US Agencies	10,915,803	2,715,528	3,289,360	1,669,980	2,750,778	490,156
<b>Total</b>	<b>\$74,105,233</b>	<b>\$52,543,112</b>	<b>\$ 8,296,372</b>	<b>\$ 7,375,384</b>	<b>\$ 5,018,806</b>	<b>\$ 871,559</b>

The weighted average maturity of the portfolio was 1.56 years.

<sup>1</sup> State of California's Local Agency Investment 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.