



2023-2024 Budget Monitoring Report

Quarter Ending December 31, 2023

The Finance Department produces the quarterly Budget Monitoring Report using month-end financial information from the City’s financial system, input from staff in City departments, and relevant information from local, regional, and national sources (e.g., newspapers, economists, League of California Cities, etc.).

If you are new to this report, we suggest that you start by first reviewing the Reader’s Guide located at the end of the document for information on the organization and layout of the report.

Please contact Tammi Royales at (619) 667-1122 if you have any questions, comments, or suggestions.

Table of Contents

	<u>Page</u>
Executive Summary	2
Resources	7
Appropriations	8
Reserves	9
Reader’s Guide	10

EXECUTIVE SUMMARY

This Budget Monitoring Report details and analyzes economic indicators and forecasts based on certain assumptions and published projections through the quarter ending December 31, 2023. In the past, this report focused on economic factors across the nation that influenced the budget monitoring report. We are shifting focus by concentrating more on local factors that directly affect our economy that help the City prepare our annual budget and forecasts. This quarters report will focus on taxes and how we use data to better forecast future spending.

NATIONAL ECONOMIC INDICATORS AND FORECASTS

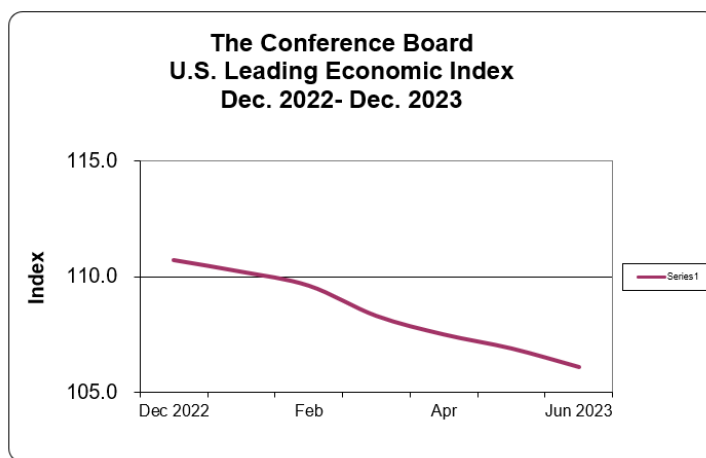
U.S. Leading Economic Index

The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 0.1 percent in December 2023 to 103.1 (2016=100), following a 0.5 percent decline in November. The LEI contracted by 2.9 percent over the six-month period between June and December 2023, a smaller decrease than its 4.3 percent contraction over the previous six months.

“The US LEI fell slightly in December, continuing to signal underlying weakness in the US economy,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. “Despite the overall decline, six out of ten leading indicators made positive contributions to the LEI in December. Nonetheless, these improvements were more than offset by weak conditions in manufacturing, the high interest-rate environment, and low consumer confidence. As the magnitude of monthly declines has lessened, the LEI’s six-month and twelve-month growth rates have turned upward but remain negative, continuing to signal the risk of recession ahead. Overall, we expect GDP growth to turn negative in Q2 and Q3 of 2024 but begin to recover late in the year.”

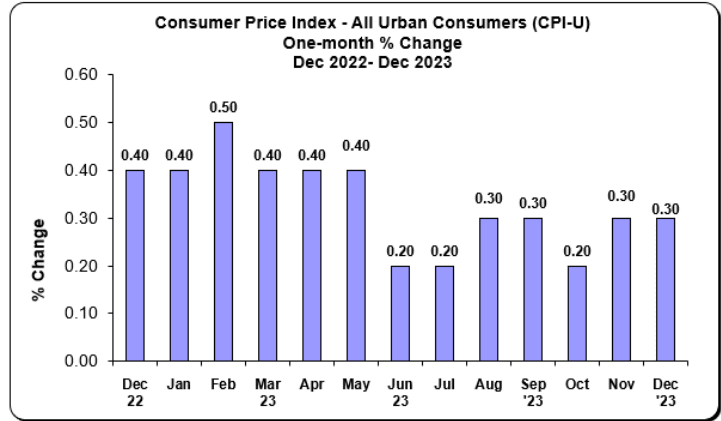
**The Conference Board
U.S. Leading Economic Index
(2016 = 100)**

	Index	% Change
Dec 2022	110.7	-0.70%
Jan	110.2	-0.50%
Feb	109.6	-0.50%
Mar 2023	108.3	-1.20%
Apr	107.5	-0.70%
May	106.9	-0.60%
Jun 2023	106.1	-0.70%
Jul	105.8	-0.30%
Aug	105.3	-0.50%
Sep 2023	104.6	-0.70%
Oct	103.7	-0.90%
Nov	103.2	-0.50%
Dec 2023	103.1	-0.10%



Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3 percent in December on a seasonally adjusted basis, after rising 0.1 percent in November, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 3.4 percent before seasonal adjustment.



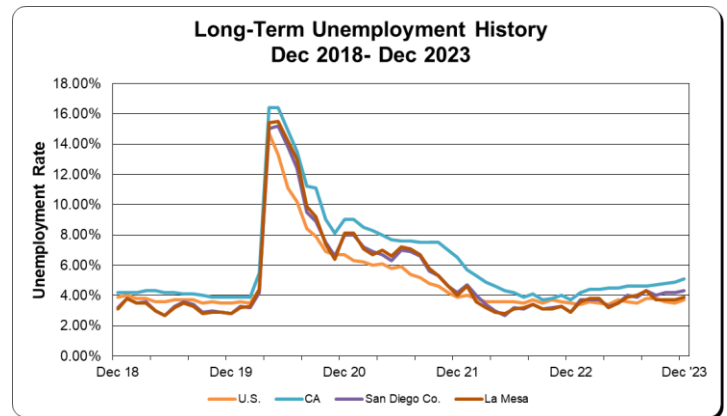
The index for all items less food and energy rose 0.3 percent in December, the same monthly increase as in November. Indexes which increased in December include shelter, motor vehicle insurance, and medical care. The index for household furnishings and operations and the index for personal care were among those that decreased over the month.

The all items index rose 3.4 percent for the 12 months ending December, a larger increase than the 3.1-percent increase for the 12 months ending November. The all items less food and energy index rose 3.9 percent over the last 12 months, after rising 4.0 percent over the 12 months ending November. The energy index decreased 2.0 percent for the 12 months ending December, while the food index increased 2.7 percent over the last year.

LOCAL ECONOMIC INDICATORS AND FORECASTS

Unemployment Rate

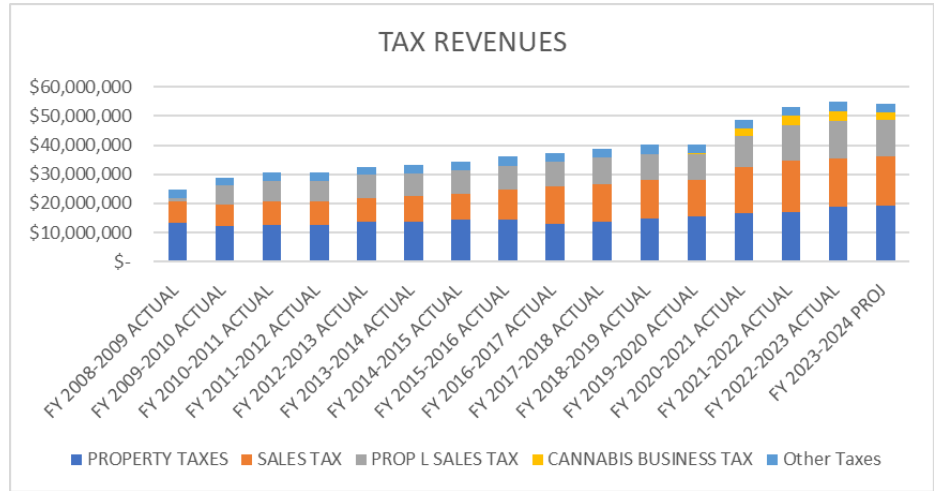
One statistic we look at is the overall unemployment rate. The overall U.S. unemployment rate doesn't give a true reflection of what is going on locally so we drill down to La Mesa to better understand how unemployment is impacting our local economy. The U.S. Bureau of Labor Statistics reported that the total U.S. nonfarm payroll employment slightly decreased to 3.7 percent in December 2023. In comparison, California's unemployment rate rose from 4.7 percent to 5.1 percent. San Diego County has a more positive rate at 4.1 percent. La Mesa ended the year at 3.9 percent. As you can see from the chart, La Mesa is back in line with pre-pandemic unemployment rates.



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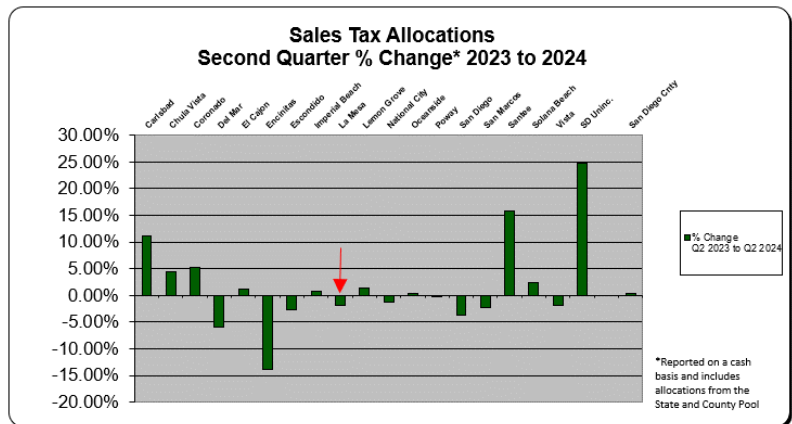
Local Sales Tax Allocations

Taxes are the main revenue source for our City. Many factors effect taxes including federal interest rates, inflation, valuation, supply chain, and consumer trends. The chart below shows tax earnings since FY09 with the passing of Prop L. Property tax revenue is based on sales from the previous year and may not be in alignment with current economic conditions. Sales tax is driven by sales at the local level and online sales which are part of the County Pool. The opening of a San Diego County distribution center has negatively impacted our portion of the County Pool.



Prop L sales tax revenue is directly related to purchases made within the city limits. Cannabis tax seems to have stabilized for now. As additional jurisdictions allow the retail sales of cannabis, these numbers will fluctuate. Other taxes are derived from citywide agreements with utilities such as refuse, cable tv, gas and electricity.

La Mesa’s receipts from July through September were 2.6% below the third sales period in 2022. However, after adjusting for reporting modifications such as audit adjustments and delayed payments, actual sales were down 1.2%.



General retail reflected a slowing in consumer spending, edging down 4.2%. The City’s share of the countywide use tax pool shrunk 4.1% due to waning third-party auto and internet sales. Furthermore, a shift by online retailers to fill more internet orders from out-of-state locations to instate fulfillment centers resulted in some revenues moving out of the pools and into direct jurisdictions. Additionally, fuel prices dipped, and service station revenues dropped accordingly.

Voter-approved Measure L posted slightly lower results, as local consumers pulled back on retail and transportation-related spending.

STATE BUDGET

The state budget has an indirect effect on the City as we do not receive direct state funding. But there is a trickle-down effect on what resources the State allocates funding sources for or programs it cuts. With a projected \$37.9 billion budget deficit, we are mindful of cuts to the budget and how it may affect La Mesa. One of the items that was discussed in Sacramento is how the

transition to EV's will reduce revenues from fuel tax. These funds pay for road repairs and maintenance. Local cities may have to use general funds to offset future revenue decreases. A proposed budget cut to community colleges will provide less funding for student services. Our proximity to Grossmont College tells us that this may impact La Mesa. Additional cuts have been proposed to climate programs, school arts, and public transit systems.

GENERAL FUND SUMMARY

General Fund Resources

General Fund revenues received through the second quarter of fiscal year 2023-2024 are in line with budget expectations at 38.3 percent. The General Fund's major revenue sources, property tax and sales tax (both base sales & use tax and Proposition L transaction tax) are not received at regular intervals throughout the fiscal year, but rather towards the middle and end of the fiscal year with a final accrual received and recorded in mid-August. For this reason, revenue streams received from these sources through the second quarter of the fiscal year will not equate to 50 percent of the total annual revenues that are eventually received.

General Fund Resources	Current Fiscal Tear			Prior Year Comparison	
	2023 - 2024 Budget ¹	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (unaudited)	% of Budget Collected
Through 50% of Fiscal Year					
Revenues:					
Taxes					
Property Tax	\$ 18,610,380.00	\$ 4,253,074.40	22.9%	\$ 814,000.00	4.4%
Former Tax Increment (RDA)	300,000.00	-	0.0%	-	0.0%
Sales	17,000,000.00	7,651,891.41	45.0%	5,567,335.00	32.7%
Proposition L	12,500,000.00	4,983,092.72	39.9%	4,049,045.00	32.4%
Cannabis Business Tax	2,500,000.00	732,818.00	29.3%	648,440.00	25.9%
Other	3,207,680.00	1,105,980.57	34.5%	996,826.00	31.1%
Subtotal Taxes	\$ 54,118,060.00	18,726,857.10	34.6%	12,075,646.00	22.3%
Licenses & permits	\$ 1,752,300.00	\$ 1,016,403.33	58.0%	\$ 740,220.00	42.2%
Fines, forfeitures & penalties	469,000.00	237,869.13	50.7%	92,430.00	19.7%
Use of money and property	1,904,000.00	1,358,290.35	71.3%	550,970.00	28.9%
Revenue from other agencies	1,530,750.00	786,829.39	51.4%	513,690.00	33.6%
Service charges	2,534,150.00	1,314,051.28	51.9%	1,296,510.00	51.2%
Other revenue	5,499,190.00	2,548,398.62	46.3%	(94,400.00)	-1.7%
Total Revenues	\$ 67,807,450.00	25,988,699.20	38.3%	15,175,066.00	6.0%
Other financing sources:					
Interfund transfers in	3,090,200.00	489,886.60	15.9%	888,410.00	29%
Interfund transfers out	(2,448,450.00)	-	0.0%	(556,250.00)	23%
Total other financing sources	641,750.00	489,886.60	76.3%	332,160.00	52%
Plus: Fund Balance at July 1	50,122,196.00	50,122,196.00	100%	39,777,922.00	79%
Total resources	\$ 118,571,396.00	\$ 76,600,781.80	65%	\$ 55,285,148.00	47%

¹ Budget reflects any amendments approved by the City Council through end of the quarter

- ✓ Overall, total general fund revenues are meeting budgetary expectations for the fiscal year but came in higher when compared to the same period last fiscal year.
- ✓ The first large payment of property taxes is not received until the third quarter.
- ✓ Sales tax revenues received through the second quarter FY24 are meeting budgetary expectations and are above when compared to the same time last year
- ✓ Proposition L sales tax revenues are meeting budgetary expectations and, consistent with base sales tax, are above the same time last fiscal year.
- ✓ Cannabis Tax second quarter is due in January and will be reflected next report.
- ✓ Other General Fund revenues, including licenses and permits, mostly due to building permit fees; revenue from other agencies, and service charge revenue from recreation classes and engineering fees are within budgetary expectations.

General Fund Appropriations

General Fund Expenditures			
Through 50% of Fiscal Year	2023-2024 Budget¹	YTD Encumbered/ Expended²	% of Budget
General Fund Department Expenditures			
Police	\$ 26,218,750.00	\$ 8,660,467.00	33.0%
Fire	16,189,490.00	5,856,199.00	36.2%
Public Works	12,985,960.00	5,251,148.00	40.4%
Administrative Services	12,362,280.00	6,127,481.00	49.6%
Community Development	3,769,710.00	1,486,704.00	39.4%
Community Services	2,538,090.00	998,496.00	39.3%
Total General Fund Expenditures	<u>\$ 74,064,280.00</u>	<u>\$ 28,380,495.00</u>	38.3%
¹ Budget reflects any amendments approved by the City Council through the end of the quarter			
² Includes expenditures encumbered through end of quarter reported			

- ✓ Most departments are at or slightly below expectations through 50 percent of the fiscal year.

General Fund Reserves

The *estimated* available reserves for the current fiscal year 2023-2024 are \$50,122,196

	Actuals		Forecasted	Final Budget	Final Budget
	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Available Reserves at June 30	36,598,856.00	42,293,571.00	50,122,196.00	41,920,331.00	36,826,970.00
Reserves as % of Operating Expenditures	69.6%	61.6%	79%	59%	57%
<i>Source of Revenues:</i>					
Property Sale (Police Station)	3,050,000.00	3,050,000.00	3,050,000.00	3,050,000.00	3,050,000.00
Property Sale (Other land)	4,000,000.00	4,000,000.00	4,000,000.00	4,000,000.00	4,000,000.00
Proposition L Revenues	10,900,549.00	11,900,000.00	10,301,000.00	12,500,000.00	12,656,300.00
Reserves from Operations	18,648,307.00	23,343,571.00	32,771,196.00	22,370,331.00	20,687,757.00
Total Ending General Fund Reserves	36,598,856.00	42,293,571.00	50,122,196.00	41,920,331.00	40,394,057.00

The City Council’s reserve policies formally establish two General Fund reserve targets: a Rainy Day Reserve target of 15 percent and an additional Cash Flow Reserve target of 25 percent. Because of the additional Proposition L Sales Tax revenues, a projected small but steady recovery of base sales and property taxes, the General Fund reserves are projected to meet both the 15 percent Rainy Day Reserve target and the additional Cash Flow Reserve target of 25 percent in fiscal year 2023-2024.

CONCLUSIONS

As we head into the mid-biennium budget update for Fiscal Year 2025, we pay more attention to our local economy and how we are seeing sales tax allocations coming in. This helps us to gauge the market and make changes as needed. Other concerns are what is happening in the Middle East, the continuing crisis in Ukraine, the upcoming Presidential election and continuous high federal interest rates. La Mesa has strong reserves to whether possible storms and will continue on the path of responsible government decisions.

READER'S GUIDE

Managing a municipality the size of La Mesa is, in many ways, like managing a for profit corporation. Instead of focusing upon bottom-line profits, La Mesa managers must skillfully steward public dollars and ensure the effectiveness and efficiency of the City's operations. They must live within legislatively approved budgets that are reviewed by residents, business leaders, and others interested in the City.

Like private corporations, public entities report their financial condition on a regular basis. Corporations make reports to stockholders while public entities report to their "stakeholders" -- the individuals and organizations that have a "stake" in the entity's operations.

In addition to an annual financial report and biennial budget document, the City of La Mesa publishes a quarterly Budget Monitoring Report to provide stakeholders with current information about the City's financial condition and performance in the essential areas of the City's operations.

This report is designed to give the reader a sense of how well La Mesa is doing fiscally and what its current successes or challenges might be. It includes a high level overview of the City's financial condition followed by more detailed information on resources and expenditures for those readers who are interested in going beyond the bottom line.

This Reader's Guide has been developed to assist you in reviewing the City of La Mesa's quarterly Budget Monitoring Report. It highlights the type of information contained in each section and presents a glossary of commonly used budget terms.

Please contact Tammi Royales at 619.667.1122 if you have any questions, comments, or suggestions.

QUARTERLY BUDGET MONITORING REPORT ORGANIZATION

Executive Summary – A broad level overview of the City of La Mesa’s current financial condition. It begins with comments on the economy, followed by a summary financial table and graph along with any comments highlighting resources and expenditures.

Resources – A more detailed discussion of revenue collections and other resources supporting the City’s expenditures. Included in the discussion is a financial table showing the current year’s budget, year-to-date collections, and calculated percent of budget collected. The discussion also includes comments on the significant factors and conditions affecting these items.

Appropriations – A more detailed discussion of expenditures and reserves. Included in the discussion is a financial table showing the current year’s budget by department, year-to-date expenditures, and calculated percent of budget expended. The discussion also includes comments on the significant factors and conditions affecting these items.

Reserves - Commentary on estimated ending fund balance and its relationship to reserve targets. Included is a table displaying historical ending fund balance related to reserve targets.

FUNDS NOT REPORTED ON

This report focuses on the General Fund which provides the majority of government services. Other funds have been excluded from this report.

GLOSSARY

The following are definitions of some of the more common terms one may encounter in reviewing this document.

Accrual Basis – The basis of accounting under which revenues are recorded when they are earned and expenditures are recorded when they result in liabilities for benefits received.

Accrued Revenue – Revenue earned during the current accounting period but which is not collected until a subsequent accounting period.

Appropriation – Amount authorized for expenditure by the City Council.

Beginning Fund Balance – An account used to record resources available for expenditure in one fiscal year because of revenues collected in excess of the budget and/or expenditures less than the budget in the prior fiscal year.

Budget - A financial operating plan for a given period which displays the expenditures to provide services or to accomplish a purpose during that period together with the estimated sources of revenue (income) to pay for those expenditures. Once the fund totals shown in the budget are appropriated by the City Council, they become maximum spending limits.

Ending Fund Balance - An account used to record resources available at year end as a result of revenues collected in excess of the budget and/or expenditures less than the budget during the fiscal year. The City's operating reserves are budgeted in the General Fund ending fund balance.

Expenditure – The payment for City obligations, goods, and services.

Fiscal Year – A twelve-month period designated as the operating year for accounting and budgeting purposes. The City of La Mesa's fiscal year is July 1 through June 30.

Fund - Governmental accounting systems are organized and operated on a fund basis. A fund is an independent financial and accounting entity with a self-balancing set of accounts in which financial transactions relating to revenues, expenditures, assets, and liabilities are recorded. Funds are established to account for the use of restricted revenue sources and, normally, to carry on specific activities or pursue specific objectives.

General Fund – The financial and accounting entity that comprises typical operations of a municipality such as police, fire, public works, and other departments.

Grants – A contribution by a government or other organization to support a particular function. Grants may be classified as either operational or capital, depending upon the grantor.

M&O (Maintenance and Operating) Costs – Expenditure category that represents amounts paid for supplies and other services and charges.

Proposition L – The La Mesa Vital City Services Measure which was passed by voters on November 4, 2008 authorizing a ¾ cent local transactions and use tax (commonly referred to as a sales tax). This general purpose tax became effective on April 1, 2009.

Reserve – An account used either to set aside budgeted revenues that are not required for expenditure in the current budget or to earmark revenues for a specific future purpose.

Resources - Total dollars available for appropriation, including estimated revenues, interfund transfers, and beginning fund balances.

Revenue - Sources of income received during the fiscal year, operating transfers from other funds, and other financing sources such as the proceeds derived from the sale of fixed assets.

Revenues from Other Agencies – Funds received from federal, state, and other local government sources in the form of grants, shared revenues, and payments in lieu of taxes.

Taxes – Compulsory charges levied by a government for financing services performed for the common benefit of the people. This term does not include specific charges made against particular persons or property for current or permanent benefit, such as special assessments.

Trust Funds – Funds used to account for assets held by a government in a trustee capacity for individuals, private organizations, other governments, and/or other funds. Examples are pension trust funds, nonexpendable trust funds, and expendable trust funds.