



2022-2023 Budget Monitoring Report

Quarter Ending March 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.

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EXECUTIVE SUMMARY

This Budget Monitoring Report details and analyzes economic indicators and forecasts based on certain assumptions and published projections through the quarter ending March 31, 2023. The overall economy remains uncertain. There are recessionary indicators but unemployment remains historically low. The following indicators help provide a picture in time.

NATIONAL ECONOMIC INDICATORS AND FORECASTS

U.S. Leading Economic Index

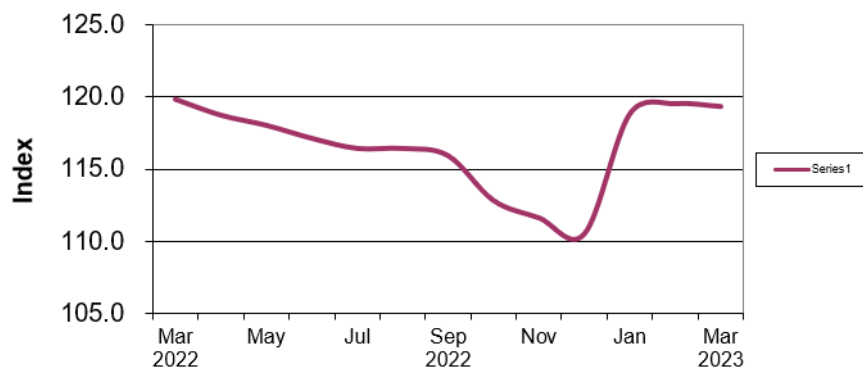
The Conference Board Leading Economic Index® (LEI) for the U.S. fell by 1.2 percent in March 2023 to 108.4 (2016=100), following a decline of 0.5 percent in February. The LEI is down 4.5 percent over the six-month period between September 2022 and March 2023—a steeper rate of decline than its 3.5 percent contraction over the previous six months (March–September 2022).

“The US LEI fell to its lowest level since November of 2020, consistent with worsening economic conditions ahead,” said Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators, at The Conference Board. “The weaknesses among the index’s components were widespread in March and have been so over the past six months, which pushed the growth rate of the LEI deeper into negative territory. Only stock prices and manufacturers’ new orders for consumer goods and materials contributed positively over the last six months. The Conference Board forecasts that economic weakness will intensify and spread more widely throughout the US economy over the coming months, leading to a recession starting in mid-2023.”

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

	Index	% Change
Mar 2022	119.8	0.30%
Apr	118.7	-0.90%
May	118.0	-0.60%
Jun 2022	117.1	-0.80%
Jul	116.4	-0.60%
Aug	116.4	0.00%
Sep 2022	115.9	-0.40%
Oct	112.8	-2.70%
Nov	111.6	-1.10%
Dec 2022	110.5	-1.00%
Jan	118.8	7.50%
Feb	119.5	0.60%
Mar 2023	119.3	-0.20%

The Conference Board
U.S. Leading Economic Index
Mar 2022- Mar 2023



Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1 percent in March on a seasonally adjusted basis, after increasing 0.4 percent in February, the U.S. Bureau of Labor Statistics reported today. Over the last 12 months, the all items index increased 5.0 percent before seasonal adjustment.

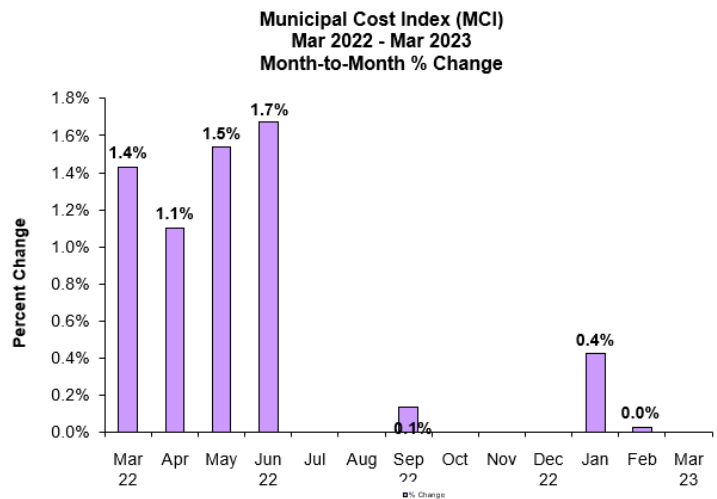
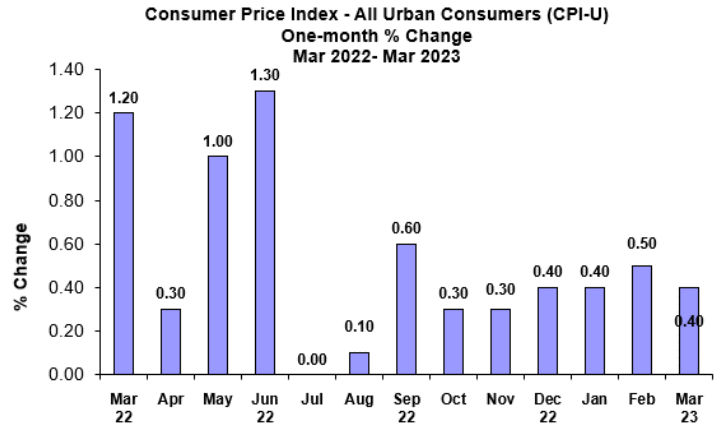
The index for shelter was by far the largest contributor to the monthly all items increase. This more than offset a decline in the energy index, which decreased 3.5 percent over the month as all major energy component indexes declined. The food index was unchanged in March with the food at home index falling 0.3 percent.

The index for all items less food and energy rose 0.4 percent in March, after rising 0.5 percent in February. Indexes which increased in March include shelter, motor vehicle insurance, airline fares, household furnishings and operations, and new vehicles. The index for medical care and the index for used cars and trucks were among those that decreased over the month.

The all items index increased 5.0 percent for the 12 months ending March; this was the smallest 12-month increase since the period ending May 2021. The all items less food and energy index rose 5.6 percent over the last 12 months. The energy index decreased 6.4 percent for the 12 months ending March, and the food index increased 8.5 percent over the last year.

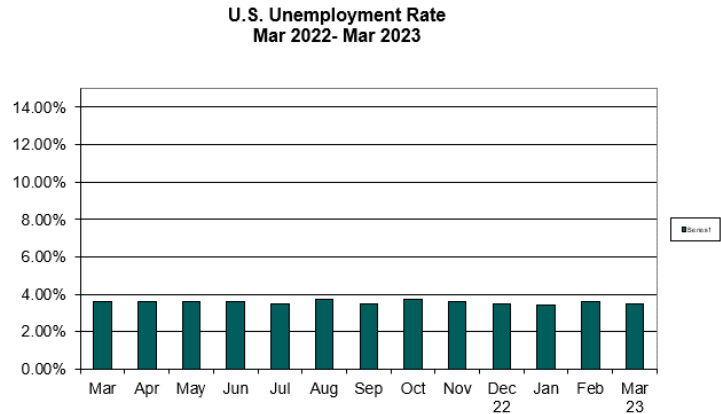
Municipal Cost Index

The Municipal Cost Index (MCI) decreased 0.1 percent in March after holding steady in February and increasing 0.4 percent in January. Overall, the MCI has increased 3.1 percent over the past twelve months. The MCI reflects the impact of the costs of labor, materials and contract services on the actual inflation experienced by the City. These costs are all factored into the composite MCI. Major indicators of these items used for the MCI include the Consumer Price Index, the Producer Price Index and the construction cost indexes published by the U.S. Department of Commerce.



U.S. Unemployment Rate

Total nonfarm payroll employment increased by 236,000 in March, and the unemployment rate changed little at 3.5 percent, the U.S. Bureau of Labor Statistics reported today. In March, employment continued to trend up in leisure and hospitality, government, professional and business services, and health care. The unemployment rate edged down to 3.5 percent and has remained in a narrow range of 3.5 percent to 3.7 percent since March. The number of unemployed persons at 5.8 million changed little in March. These measures have shown little net change since early 2022.



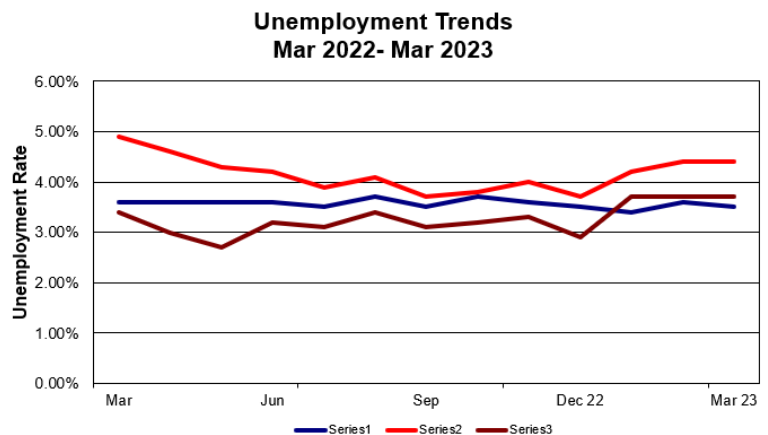
Federal Funds Rate (Discount Rate)

A recent statement issued by the Federal Open Market Committee (FOMC) indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation has eased somewhat but remains elevated. Russia’s war against Ukraine is causing tremendous human and economic hardship and is contributing to elevated global uncertainty. The Committee is highly attentive to inflation risks.

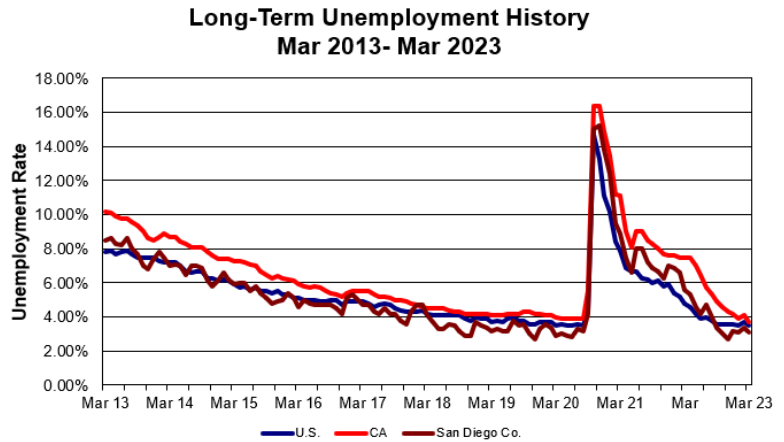
STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS

State and Local Unemployment

The state unemployment rate increased from 4.2 percent in January to 4.4 percent in February and in March. The County of San Diego rate held steady at 3.7 percent, and the City of La Mesa unemployment rate increased from 3.6 percent in January to 3.8 percent in February and in March.



California's labor market grew slowly in March, with total nonfarm employment in the state expanding by just 8,700 positions. Recent extreme weather and flooding likely played a role in the slowdown as major storms hit California during the survey week and impacted sectors including Construction and Real Estate. February's gains were also revised down to 21,800 in the latest numbers, a 10,500 decrease from the preliminary estimate of 32,300.



Statewide, as of February 2023, there were 295,200 more people employed in California compared to February 2020, the pre-pandemic peak. Total nonfarm employment in the state grew 1.7% over this time, compared to a 2.1% increase in the United States as a whole. Annually, California payrolls increased by 2.5% from March 2022 to March 2023, trailing the 2.7% national increase over the same period.

California's unemployment rate held steady at 4.4% in March 2023. While this is near historic lows, the state's unemployment rate remains elevated relative to the United States overall (3.5%). California continues to struggle with its labor supply, which grew by 32,700 in March, an increase of 0.2% on a month-over-month basis. Since February 2020, the state's labor force has fallen by 229,600 workers, a 1.2% decline.

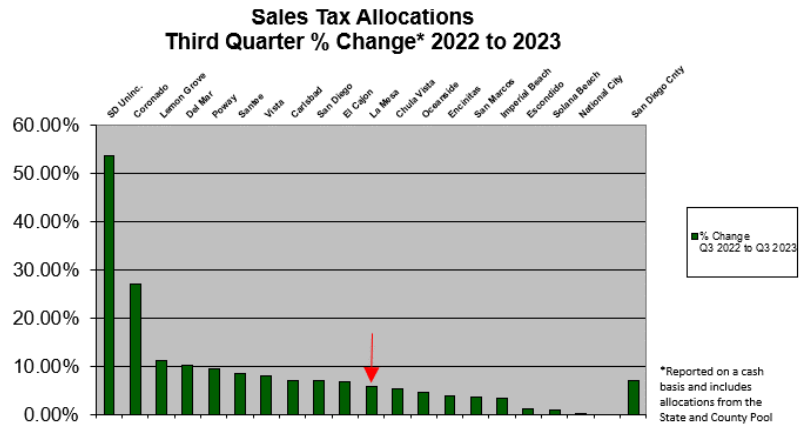
Local Economic Outlook

San Diego County closed out 2022 with an even better rate of job growth than expected. In March, the California Employment Development Department (EDD) released annual benchmark revisions to their monthly employment survey estimates. These revisions indicate that the San Diego labor market has been growing faster than originally believed.

The housing market is showing signs of weakness. Rising interest rates have taken a toll on the market, making mortgages more expensive and sidelining would-be homeowners. As a result, home price growth has decelerated, and there has been little relief in terms of new housing production or new inventory of homes on the market. Higher frequency data from Zillow shows a synchronized decline in home price growth, with many markets in California starting to see negative year-over-year growth in home prices.

Local Sales Tax Allocations

La Mesa’s receipts from October through December were 9 percent above the first sales period in 2022, and place of sale collections soared to 12 percent. The regional economy demonstrated strength during the first three months of the year. The City’s largest sales tax group, general consumer goods, jumped 15 percent. The City’s allocations from the countywide use tax pool fell 2 percent. The pools remain a solid source of local revenue, bolstered by taxes on e-commerce.



Restaurants, especially casual dining, experienced another sensational sales period as patrons enjoyed the experience of dining out. Cannabis revenues lifted the food-drug group; and higher local gas prices and increased travel pushed up receipts service station receipts. Building-construction group also performed well.

Voter approved Measure L also posted stellar results supported by vehicle, merchandise and restaurant sales.

STATE BUDGET

On June 30, 2022 Governor Gavin Newsom signed a \$308 billion state budget for Fiscal Year 2022-2023. The Budget provides over \$17 billion in relief to millions of Californians to help offset rising costs, and reflects an accelerated minimum wage increase, effective January 1, 2023. The Budget includes substantial investments to address homelessness and behavioral health challenges and includes funding to make neighborhoods safer. It also supports additional protection from the impacts of wildfire and drought.

The Budget also makes a multi-year commitment to the state's infrastructure—funding schools, higher education, broadband infrastructure, and a clean transportation system. Finally, the Budget includes critical actions to maintain energy reliability, creating a strategic reserve, protecting ratepayers, and accelerating clean energy projects.

Staff will continue to closely monitor the State’s budget situation and review any actions by the legislature that might significantly impact the budget including any applicable grants in line with the City’s objectives.

GENERAL FUND SUMMARY

General Fund Resources

General Fund revenues received through the third quarter of fiscal year 2022-2023 are in line with budget expectations at 73.9 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.

General Fund Resources	Current Fiscal Tear			Prior Year Comparison	
	2022 - 2023 Budget ¹	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (unaudited)	% of Budget Collected
Through 75% of Fiscal Year					
Revenues:					
Taxes					
Property Tax	\$ 16,937,640.00	\$ 10,156,160.00	60.0%	\$ 9,402,104.00	55.5%
Former Tax Increment (RDA)	421,200.00	105,083.00	24.9%	-	0.0%
Sales	17,000,000.00	13,636,649.00	80.2%	9,948,631.00	58.5%
Proposition L	12,100,000.00	9,947,433.00	82.2%	7,091,660.00	58.6%
Cannabis Business Tax	2,000,000.00	2,299,958.57	115.0%	1,347,682.00	67.4%
Other	3,207,680.00	1,878,904.00	58.6%	1,624,999.00	50.7%
Subtotal Taxes	\$ 51,666,520.00	38,024,187.57	73.6%	29,415,076.00	56.9%
Licenses & permits	\$ 1,608,400.00	\$ 1,472,055.00	91.5%	\$ 1,590,051.00	98.9%
Fines, forfeitures & penalties	433,000.00	495,626.00	114.5%	303,216.00	70.0%
Use of money and property	1,766,140.00	1,738,069.00	98.4%	1,016,735.00	57.6%
Revenue from other agencies	1,479,650.00	1,396,906.00	94.4%	1,364,208.00	92.2%
Service charges	2,374,120.00	2,681,019.00	112.9%	1,705,570.00	71.8%
Other revenue	3,280,000.00	(15,945.00)	-0.5%	124,131.00	3.8%
Total Revenues	\$ 62,607,830.00	45,791,917.57	73.1%	35,518,987.00	6.0%
Other financing sources:					
Interfund transfers in	3,090,200.00	1,459,855.00	47.2%	1,703,191.00	55%
Interfund transfers out	(2,448,450.00)	(827,952.00)	33.8%	(813,600.00)	33%
Total other financing sources	641,750.00	631,903.00	98.5%	889,591.00	139%
Plus: Fund Balance at July 1	36,598,856.00	39,777,922.00	92%	36,580,133.00	100%
Total resources	\$ 99,848,436.00	\$ 86,201,742.57	86%	\$ 72,988,711.00	73%

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

- ✓ Property Tax is as expected
- ✓ Overall, total general fund revenues are meeting budgetary expectations for the fiscal year.
- ✓ Sales tax revenues received through the third quarter FY23 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 period last fiscal year. Proposition L sales tax collections have a somewhat different base than the base sales tax collections. These collections include point-of-sale transactions that occur within the City limits of La Mesa. Proposition L sales tax collections also include transactions that take place outside the City if the items are being delivered into the City (e.g., furniture or large appliances) and autos and other large vehicles purchased that are being registered in La Mesa.
- ✓ Cannabis Tax continues to exceed expectations but is forecasted to flatten as more cities allow sales of cannabis that will compete with local La Mesa shops.
- ✓ 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.
- ✓ Unrestricted Proposition L proceeds are being utilized to pay for ongoing vital City services that otherwise would have been reduced. As the economy recovers and ongoing revenues begin to stabilize, Proposition L proceeds are being used to preserve General Fund reserve levels.

General Fund Appropriations

General Fund Expenditures			
Through 75% of Fiscal Year	2022-2023 Budget¹	YTD Encumbered/ Expended²	% of Budget
General Fund Department Expenditures			
Police	\$ 24,435,310.00	\$ 15,423,191.00	63.1%
Fire	14,224,510.00	9,388,315.00	66.0%
Public Works	11,153,190.00	5,951,257.00	53.4%
Administrative Services	8,701,590.00	7,552,181.00	86.8%
Community Development	2,530,710.00	1,727,835.00	68.3%
Community Services	2,103,650.00	1,331,684.00	63.3%
Total General Fund Expenditures	<u>\$ 63,148,960.00</u>	<u>\$ 41,374,463.00</u>	65.5%
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 slightly below expectations through 75 percent of the fiscal year.
- ✓ Departments that are higher than budgeted are due to the carry forward and encumbrance of prior year obligations and the payment of full fiscal year appropriations for some specialized services such as street sweeping.

General Fund Reserves

The estimated available reserves for the current fiscal year 2022-2023 are \$36,826,970.

	Actuals			Final Budget FY 22-23	Revised Ending Fund Reserves (Forecast)
	FY 19-20	FY 20-21	FY 21-22		
Available Reserves at June 30	32,051,168.00	36,598,856.00	35,917,640.00	23,591,720.00	36,826,970.00
Reserves as % of Operating Expenditures	61.5%	69.6%	61.6%	40.4%	58.4%
Source of Revenues:					
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	8,741,926.00	10,900,549.00	11,900,000.00	10,301,000.00	12,100,000.00
Reserves from Operations	16,259,242.00	18,648,307.00	16,967,640.00	6,240,720.00	17,676,970.00
Total Ending General Fund Reserves	32,051,168.00	36,598,856.00	35,917,640.00	23,591,720.00	36,826,970.00

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, and continued cost containment measures by departments, 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 2022-2023.

CONCLUSIONS

Inflation continues to be the largest concern with consumers and the federal reserve continues to hike interest rates to try and slow down consumer spending to allow prices to flatten. Talks of a recession are still continuing but strong indicators remain in the job market. While there have been layoffs in technology, there seems to be absorption in other industries to offset this as the job market remains tight. The war in Ukraine continues to have a global impact. We are starting to see a local slowdown in consumer spending which is cause for concern as we continue with budget preparations for fiscal years 2024-2025. As always, we will continue to monitor indicators that may affect the City’s revenues and expenses.

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.