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# **2021-2022 Budget Monitoring Report**

**Quarter Ending March 31, 2022**

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, 2022. As a result of the COVID-19 public health emergency declared in early March 2020, the national economy took an immediate decline in most areas. As of the end of the quarter, most economic factors were on the rise but some outlooks still remain uncertain of the long term effects.

### NATIONAL ECONOMIC INDICATORS AND FORECASTS

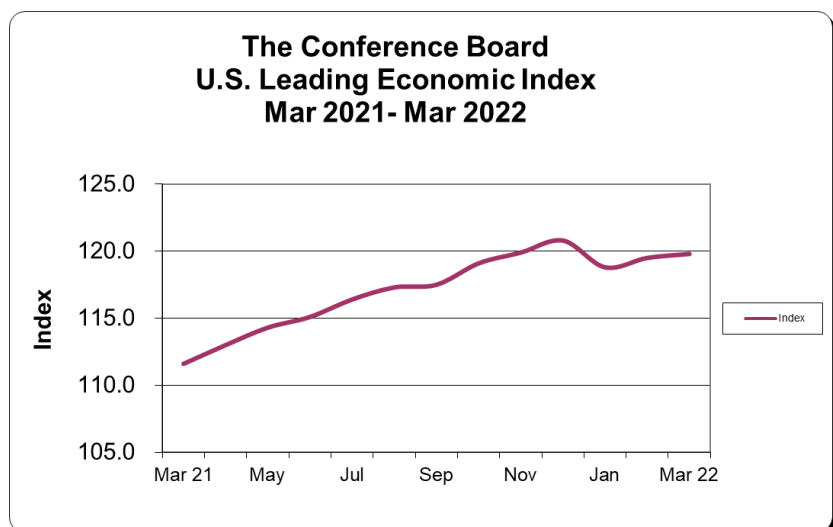
#### *U.S. Leading Economic Index*

The Conference Board Leading Economic Index (LEI) for the U.S. increased by 0.3 percent in March to 119.8, following a 0.6 percent increase in February. The LEI increased by 1.9 percent in the six-month period from September 2021 to March 2022.

“The US LEI rose again in March despite headwinds from the war in Ukraine,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “This broad-based improvement signals economic growth is likely to continue through 2022 despite volatile stock prices and weakening business and consumer expectations. The Conference Board projects 3.0 percent year-over-year US GDP growth in 2022, which is slower than the 5.6 percent pace of 2021, but still well above pre-covid trend. This rate also reflects a 0.5 point downgrade incorporated in our base case to include the effects of the war in Ukraine compared to before the war (3.5 percent). However, downside risks to the growth outlook remain, associated with intensification of supply chain disruptions and inflation linked to lingering pandemic shutdowns and the war, as well as with tightening monetary policy and persistent labor shortages.”

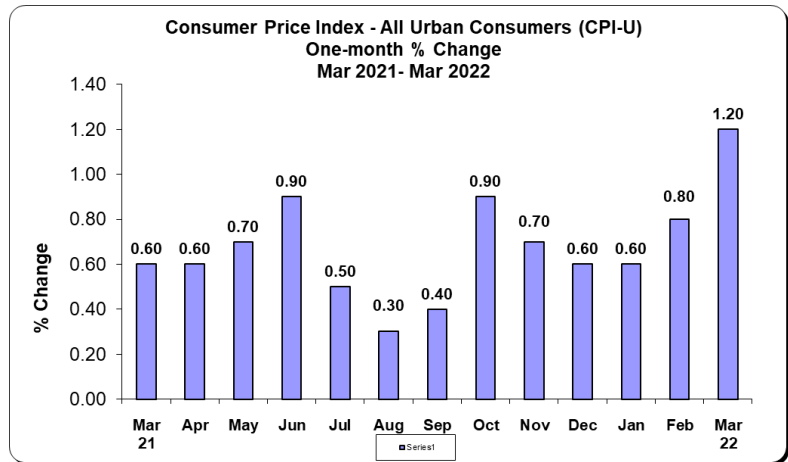
**The Conference Board  
 U.S. Leading Economic Index  
 (2016 = 100)**

	<b>Index</b>	<b>% Change</b>
Mar 21	111.6	1.30%
Apr	113.0	1.30%
May	114.3	1.20%
Jun	115.1	0.70%
Jul	116.4	1.10%
Aug	117.3	0.80%
Sep	117.5	0.20%
Oct	119.1	1.40%
Nov	119.9	0.70%
Dec	120.8	0.80%
Jan	118.8	-1.70%
Feb	119.5	0.60%
Mar 22	119.8	0.30%



### Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) increased 1.2 percent in March on a seasonally adjusted basis after rising 0.8 percent in February, the U.S. Bureau of Labor Statistics reported in April. Over the last 12 months, the all items index increased 8.5 percent before seasonal adjustment. Increases in the indexes for gasoline, shelter and food were the largest contributors to the seasonally adjusted all items increase. The gasoline index rose 18.3 percent in March and accounted for over half of



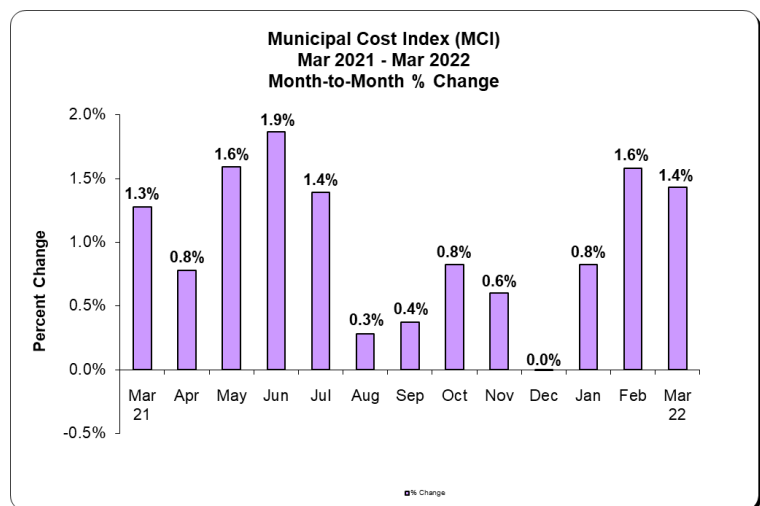
the all items monthly increase; other energy component indexes also increased. The food index rose 1.0 percent and the food at home index rose 1.5 percent.

The index for all items less food and energy rose 0.3 percent in March following a 0.5 percent increase the prior month. The shelter index was by far the biggest factor in the increase, with a broad set of other indexes also contributing, including those for airline fares, household furnishings and operations, medical care, and motor vehicle insurance. In contrast, the index for used cars and trucks fell 3.8 percent over the month.

The all items index continued to accelerate, rising 8.5 percent for the 12 months ending March, the largest 12-month increase since the period ending December 1981.

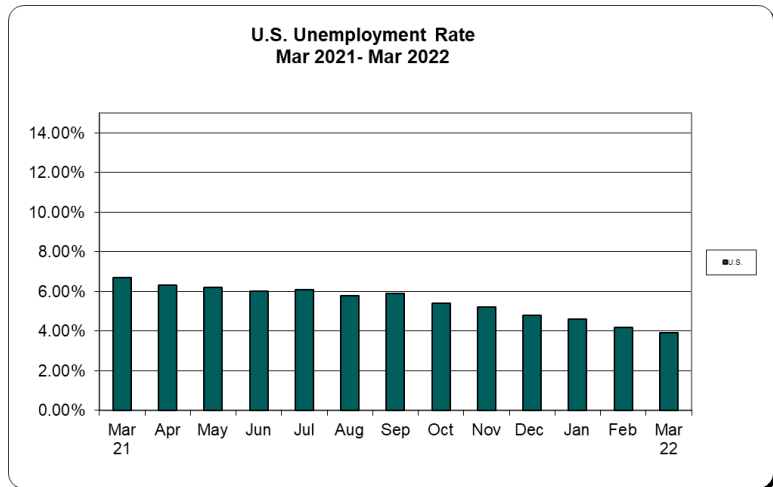
### Municipal Cost Index

The Municipal Cost Index (MCI) remained unchanged in March after increasing 1.6 percent in February and 0.8 percent in January. Overall, the MCI has increased 10.8 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 rose by 431,000 in March, and the unemployment rate declined to 3.6 percent, the U.S. Bureau of Labor Statistics reported in April. Employment continued to trend up in leisure and hospitality, in professional and business services, retail trade and manufacturing. The unemployment rate declined by 0.2 percentage point to 3.6 percent in March, and the number of unemployed persons decreased by 318,000 to 6.0 million. In February 2020, prior to the coronavirus (COVID-19) pandemic, the unemployment rate was 3.5 percent, and unemployed persons numbered 5.7 million. The number of long-term unemployed (those jobless for 27 weeks or more) decreased by 274,000 to 1.4 million in March. This measure is 307,000 higher than in February 2020. The long-term unemployed accounted for 23.9 percent of the total unemployed in March.



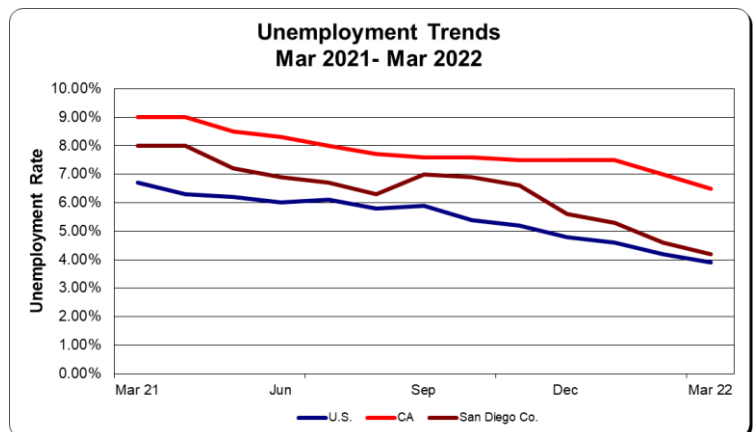
### Federal Funds Rate (Discount Rate)

A recent statement issued by the Federal Open Market Committee (FOMC) indicates that the sectors most adversely affected by the pandemic have improved in recent months but continue to be affected by COVID-19. Job gains have been strong in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. The Committee decided to raise the target range for the federal funds rate to 1/4 to 1/2 percent and anticipates that ongoing increases in the target range will be appropriate.

## STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS

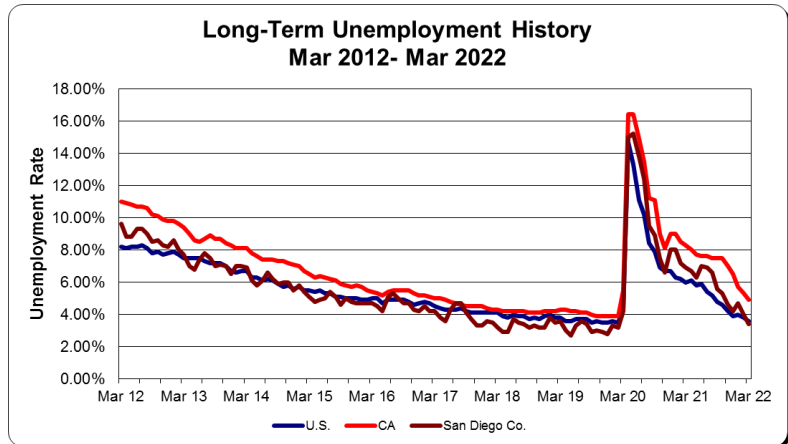
### State and Local Unemployment

The state unemployment rate declined from 5.7 percent in January to 5.3 percent in February before declining to 4.9 percent in March. The County of San Diego and the City of La Mesa unemployment rates decreased from 4.2 percent and 4.0 percent respectively in December to 4.7 percent and 4.6 in January and 4.0 percent and 3.6 percent in February before each declining further to 3.4 percent and 3.2 percent in March.



California’s labor market continued to expand at a steady pace in March, with total nonfarm employment in the state growing by 60,200 positions over the month, according to an analysis released jointly with the UCR School of Business Center for Economic Forecasting and Development.

While California has added jobs at a healthy pace in 2021 and 2022, as of March 2022, the state has recovered just 89.3 percent of the jobs that were lost in March and April 2020, and there are now 395,500 fewer people employed in California compared to pre-pandemic February 2020.



“The strong job gains relative to the nation will continue, since California has more ground to recover compared to the rest of the country,” said Taner Osman, Research Manager at Beacon Economics and the Center for Economic Forecasting. “While macro headwinds, most notably rising interest rates and inflation, gather momentum, it’s not expected to slow employment growth in the coming months, as the re-opening tailwinds remain strong.”

California’s unemployment rate fell to 4.9 percent in March, a 0.4 percentage-point decline from the previous month, which was driven by an increase in household employment. However, the state’s unemployment rate remains elevated relative to the 3.6 percent rate in the United States overall. While growing by 63,100 in March, the state continues to struggle with its labor supply. Since February 2020, the state’s labor force has fallen by 405,100 workers, a 2.1 percent decline.

### Local Economic Outlook

According to Beacon Economics Spring 2022 Economic Forecast, the region has not fully recovered from the initial impact of the pandemic-driven recession and still has room to grow. Trends in transportation and warehousing have been bolstered by the shift to online retail, an existing trend greatly accelerated by the pandemic.

Beacon Economics believes the San Diego labor market will fully recoup pandemic-related job losses by either the end of this year or the beginning of the next as the region continues to transition from recovery to expansion.

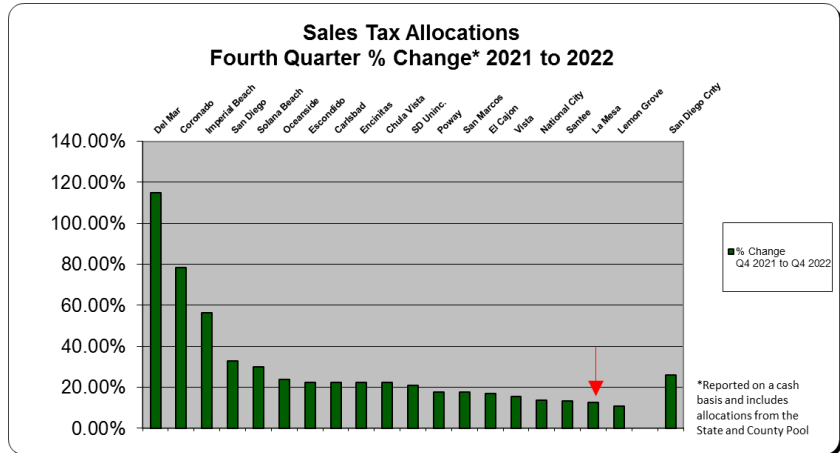
While the region’s labor market is still recovering, the pandemic has ignited the region’s real estate market. According to CoreLogic data for new homes, existing homes, and condos, sales in San Diego County increased 23.5 percent year-over-year in 2021. While this was the fastest rate of increase in nearly 25 years, it was lower relative to the rates of increase in Orange (+33.7%) and Los Angeles (+40.4%) Counties. Both locally and at the national level, housing markets have been on fire. Among the primary factors driving the rapid upswing in sales were the steady decline in interest rates and a shift in consumer preferences for more space.

*Local Sales Tax Allocations*

La Mesa’s receipts from October through December were 12.4 percent above the fourth sales period in 2020. Excluding reporting aberrations, actual sales were up 7.2 percent.

The largest factor in this improvement was a 19 percent surge in receipts from general consumer goods retailers as shoppers spent freely during the holiday season. Casual dining

eateries improved 60 percent as people got out of the house and came together again, seeking meaningful ways to connect with others after the isolation of the Covid-19 crisis. Fuel sales grew on higher prices and more driving activity. The recent opening of several new cannabis outlets also boosted the bottom-line. Conversely, allocations from the countywide use-tax pool were cut by several temporary factors. New car sales also dropped.



Measure L revenue grew 17 percent, exceeding the rate of improvement for Bradley-Burns tax receipts previously discussed, with that revenue suppressed by the drop in local auto sales and countywide use-tax allocations. Net of aberrations, taxable sales for all of San Diego County grew 14.7 percent over the comparable time period; the Southern California region was up 17.4 percent.

**STATE BUDGET**

Governor Newsom released the May Revision to his proposed 2022-23 state budget on May 13, projecting \$49 billion in discretionary revenues, a \$227 billion General Fund spending plan, and total reserves of \$37 billion.

State lawmakers and Governor Newsom will have a \$97.5 billion surplus to allocate this year, though half of it must be earmarked for education and other purposes. It’s the second year in a row California is facing a substantial surplus driven largely by income tax revenue from the state’s wealthy earners. The largest categories of spending from the overall General Fund surplus are for natural resources and transportation programs.

Negotiations with lawmakers on the budget proposal for 2022-23 will take place over the next several months with a June 15 passing deadline.

Staff will continue to closely monitor the State’s budget situation and review any actions by the legislature that might significantly impact the budget.

**GENERAL FUND SUMMARY**

*General Fund Resources*

General Fund revenues have come in about as expected through the third quarter of fiscal year 2021-2022. 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. For this reason, revenue streams received from these sources through the third 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 Year			Prior Year Comparison	
	2021-2022 Through 75% of Fiscal Year Budget <sup>1</sup>	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (unaudited)	% of Budget Collected
<b>Revenues:</b>					
<b>Taxes</b>					
Property Tax	\$ 15,691,510	\$ 9,402,104	59.9%	\$ 9,109,451	58.7%
Former Tax Increment (RDA)	343,600	-	0.0%	-	0.0%
Sales	14,145,000	9,948,631	70.3%	8,653,302	71.5%
Proposition L	9,974,000	7,091,660	71.1%	5,924,432	70.1%
Cannabis Business Tax	2,000,000	1,347,682	67.4%	1,112,079	222.4%
Other	3,206,700	1,624,999	50.7%	1,362,755	42.0%
<b>Subtotal taxes</b>	<b>45,360,810</b>	<b>29,415,076</b>	<b>64.8%</b>	<b>26,162,018</b>	<b>65.1%</b>
Licenses & permits	1,580,500	1,590,051	100.6%	1,215,709	89.4%
Fines, forfeitures & penalties	376,100	303,216	80.6%	191,440	44.8%
Use of money and property	1,365,920	1,016,735	74.4%	755,215	51.5%
Revenue from other agencies	1,258,120	1,364,208	108.4%	869,046	83.8%
Service charges	1,869,100	1,705,570	91.3%	803,098	35.0%
Other revenue	145,490	124,131	85.3%	100,178	68.1%
<b>Total revenues</b>	<b>51,956,040</b>	<b>35,518,988</b>	<b>68.4%</b>	<b>30,096,704</b>	<b>64.1%</b>
<b>Other financing sources:</b>					
Interfund transfers in	2,908,200	1,703,191	58.6%	1,828,700	66.4%
Interfund transfers out	(2,012,250)	(813,600)	40.4%	(481,450)	37.3%
<b>Total other financing sources</b>	<b>895,950</b>	<b>889,591</b>		<b>1,347,250</b>	
<b>Plus: Fund Balance at July 1</b>	<b>31,208,810</b>	<b>31,208,810</b>	<b>100.0%</b>	<b>32,051,168</b>	<b>100.0%</b>
<b>Total resources</b>	<b>\$ 84,060,800</b>	<b>\$ 67,617,389</b>	<b>80.4%</b>	<b>\$ 63,495,123</b>	<b>78.9%</b>

<sup>1</sup> Budget reflects any amendments approved by the City Council through the end of the quarter

- ✓ Overall, total general fund revenues are meeting budgetary expectations when compared to the same period last fiscal year.
- ✓ Property tax revenues received through the third quarter are slightly above the same time last year. Because the majority of property tax revenues are received in December and April, third quarter revenues are historically below 75 percent.



- ✓ Sales tax revenues received through the third quarter are slightly below when compared to the same time last year.
- ✓ Proposition L sales tax revenues are slightly higher when compared the same time last fiscal year and are within budgetary expectations. 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.
- ✓ The budget for Cannabis Business Tax revenue was increased from \$500,000 in FY 20-21 to \$2,000,000 in FY 21-22. Cannabis Business Tax revenues are meeting budgetary expectations in the third quarter and are anticipated to exceed the budgeted revenue by the end of the fiscal year.
- ✓ Other General Fund revenues, including licenses and permits, fines, forfeitures and penalties, which includes parking enforcement, use of money and property, which includes recreation facility rentals, revenue from other agencies and service charges are each up when compared to last year as a direct result of reduced COVID-19 restrictions.
- ✓ Unrestricted Proposition L proceeds are being utilized to fill the structural budget deficits caused by lower revenues and 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*

<b>General Fund Expenditures</b>			
<b>Through 75% of Fiscal Year</b>	<b>2021-2022 Budget<sup>1</sup></b>	<b>YTD Encumbered/ Expended<sup>2</sup></b>	<b>% of Budget</b>
<b>General Fund Department Expenditures</b>			
Police	\$ 22,579,200	\$ 16,483,836	73.0%
Fire	13,533,020	10,355,896	76.5%
Public Works	10,345,500	7,357,426	71.1%
Administrative Services	7,974,070	5,764,361	72.3%
Community Development	2,675,110	1,588,588	59.4%
Community Services	1,999,410	1,384,188	69.2%
<b>Total General Fund Expenditures</b>	<b>\$ 59,106,310</b>	<b>\$ 42,934,295</b>	<b>72.6%</b>

<sup>1</sup> Budget reflects any amendments approved by the City Council through the end of the quarter  
<sup>2</sup> Includes expenditures encumbered through end of quarter reported

- ✓ All departments are at or slightly below expectations through 75 percent of the fiscal year.

*General Fund Reserves*

The approved Final Budget for FY 21-22 includes estimated available reserves at June 30, 2022 of \$26,930,800. Staff recently updated the estimated available reserves for the current fiscal year 2021-2022 as part of the annual forecast presented to the City Council in March. As the impacts of COVID-19 on general fund reserves were not as severe as originally anticipated, the general fund outlook has improved. The revised ending fund reserve balance presented at the March 2022 Council Workshop is \$35,917,640.

	Actuals			Final Budget FY 21-22	Revised Ending Fund Reserves (Forecast)
	FY 18-19	FY 19-20	FY 20-21		
<b>Available Reserves at June 30</b>	<b>31,499,284</b>	<b>32,051,168</b>	<b>36,598,856</b>	<b>26,930,800</b>	<b>35,917,640</b>
<b>Reserves as % of Operating Expenditures</b>	<b>60.4%</b>	<b>61.5%</b>	<b>69.6%</b>	<b>45.6%</b>	<b>61.6%</b>
<b>Source of Reserves:</b>					
<b>Property Sale (Police Station)</b>	<b>3,050,000</b>	<b>3,050,000</b>	<b>3,050,000</b>	<b>3,050,000</b>	<b>3,050,000</b>
<b>Property Sale (Other land)</b>	<b>4,000,000</b>	<b>4,000,000</b>	<b>4,000,000</b>	<b>4,000,000</b>	<b>4,000,000</b>
<b>Proposition L Revenues</b>	<b>8,940,142</b>	<b>8,741,926</b>	<b>8,673,000</b>	<b>8,673,000</b>	<b>8,673,000</b>
<b>Reserves from Operations</b>	<b>15,509,142</b>	<b>16,259,242</b>	<b>20,875,856</b>	<b>11,207,800</b>	<b>20,194,640</b>
<b>Total Ending General Fund Reserves</b>	<b>31,499,284</b>	<b>32,051,168</b>	<b>36,598,856</b>	<b>26,930,800</b>	<b>35,917,640</b>

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 2021-2022.

**CONCLUSIONS**

After an unprecedented two years, the nation’s economy is in a stage of recovery after the height of the pandemic. Economists are anticipating that this momentum will continue in the coming months and year, but cautious of rising inflation numbers that may have an unanticipated negative impact. The conflict in Ukraine and the disruption of the supply change may impact recovery as well. Although La Mesa currently maintains a healthy reserve, we will continue to monitor any continuing impacts of COVID-19, the war in Ukraine, and the supply chain disruptions on revenues and expenditures. Property tax revenues as well as other General Fund revenues remain stable. Overall General Fund expenditures continue to be within budgetary expectations. Finally, projected General Fund reserves remain consistent with the Council’s reserve policies.

## 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  $\frac{3}{4}$  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.