



---

# **2022-2023 Budget Monitoring Report**

**Quarter Ending September 30, 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.

## Table of Contents

	<u>Page</u>
<b>Executive Summary</b> .....	2
<b>Resources</b> .....	7
<b>Appropriations</b> .....	8
<b>Reserves</b> .....	9
<b>Reader’s Guide</b> .....	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 September 30, 2022. After a surge in consumer spending after the economy reopened following pandemic closures, the economy finds itself dealing with inflationary numbers that may have continuous negative impact going into the coming fiscal year.

### NATIONAL ECONOMIC INDICATORS AND FORECASTS

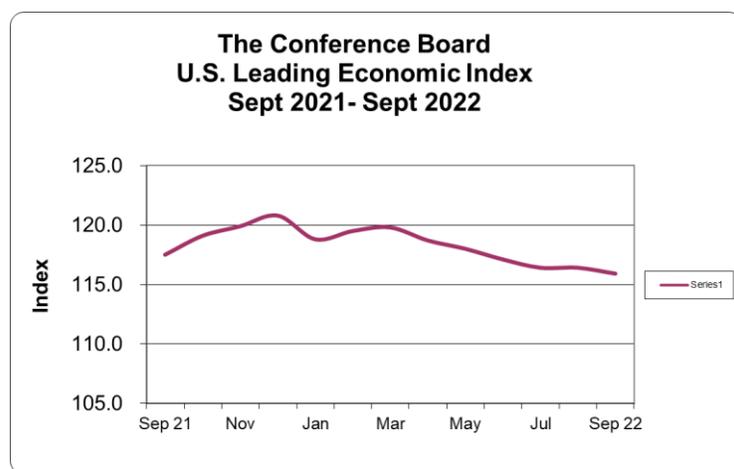
#### *U.S. Leading Economic Index*

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 0.4 percent in September 2022 to 115.9 (2016=100), after remaining unchanged in August. The LEI is down 2.8 percent over the six-month period between March and September 2022, a reversal from its 1.4 percent growth over the previous six months.

“The US LEI fell again in September and its persistent downward trajectory in recent months suggests a recession is increasingly likely before yearend,” said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. “The six-month growth rate of the LEI fell deeper into negative territory in September, and weaknesses among the leading indicators were widespread. Amid high inflation, slowing labor markets, rising interest rates, and tighter credit conditions, The Conference Board forecasts real GDP growth will be 1.5 percent year-over-year in 2022, before slowing further in the first half of next year.”

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

	<b>Index</b>	<b>% Change</b>
Sep 21	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	119.8	0.30%
Apr	118.7	-0.90%
May	118.0	-0.60%
Jun	117.1	-0.80%
Jul	116.4	-0.60%
Aug	116.4	0.00%
Sep 22	115.9	-0.40%



### Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.4 percent in September on a seasonally adjusted basis after rising 0.1 percent in August, the U.S. Bureau of Labor Statistics reported in October. Over the last 12 months, the all items index increased 8.2 percent before seasonal adjustment. Increases in the shelter, food, and medical care indexes were the largest of many contributors to the monthly seasonally adjusted all items increase. These increases were partly offset by a 4.9-percent decline in the gasoline index. The food index continued to rise, increasing 0.8 percent over the month as the food at home index rose 0.7 percent. The energy index fell 2.1 percent over the month as the gasoline index declined, but the natural gas and electricity indexes increased.

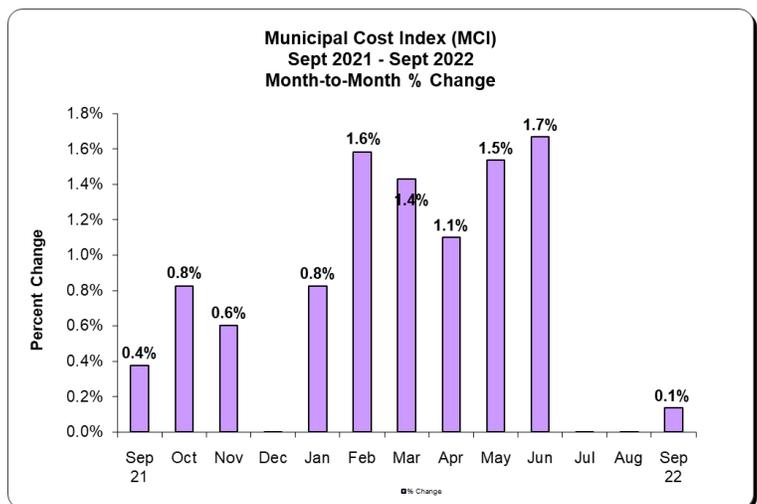


The index for all items less food and energy rose 0.6 percent in September, as it did in August. The indexes for shelter, medical care, motor vehicle insurance, new vehicles, household furnishings and operations, and education were among those that increased over the month. There were some indexes that declined in September, including those for used cars and trucks, apparel, and communication.

The all items index increased 8.2 percent for the 12 months ending September, a slightly smaller figure than the 8.3-percent increase for the period ending August.

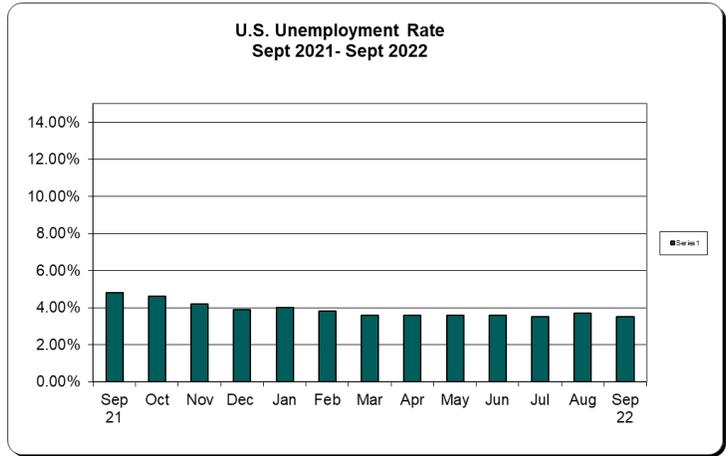
### Municipal Cost Index

The Municipal Cost Index (MCI) increased 0.1 percent in September after decreasing 0.2 percent in August and 0.7 percent in July. Overall, the MCI has increased 9.1 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 263,000 in September, and the unemployment edged down to 3.5 percent, the U.S. Bureau of Labor Statistics reported today. Notable job gains occurred in leisure and hospitality and in health care. The unemployment rate was 3.5 percent in September, returning to its July level. The number of unemployed persons edged down to 5.8 million in September. These measures are 1.1 percentage points below their values in February 2020, prior to the coronavirus (COVID-19) pandemic. The number of long-term unemployed (those jobless for 27 weeks or more) was little changed at 1.1 million in September. The long-term unemployed accounted for 18.5 percent of all unemployed persons.



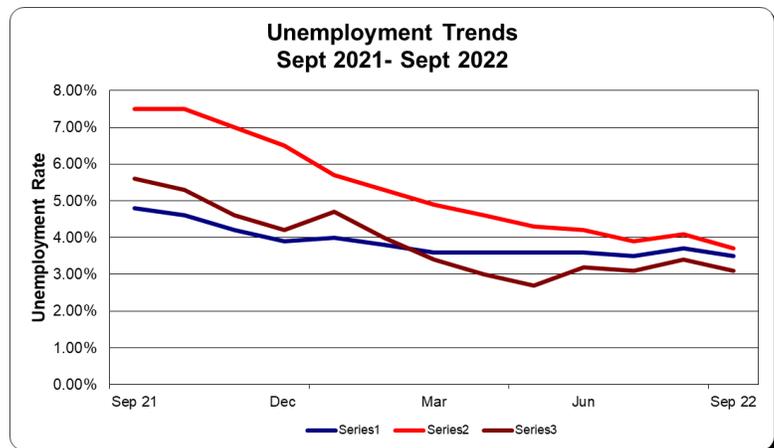
*Federal Funds Rate (Discount Rate)*

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 remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures. Russia’s war against Ukraine is causing tremendous human and economic hardship. The war and related events are creating additional upward pressure on inflation and are weighing on global economic activity. The Committee decided to raise the target range for the federal funds rate to 3 to 3-1/4 percent and anticipates that ongoing increases in the target range will be appropriate.

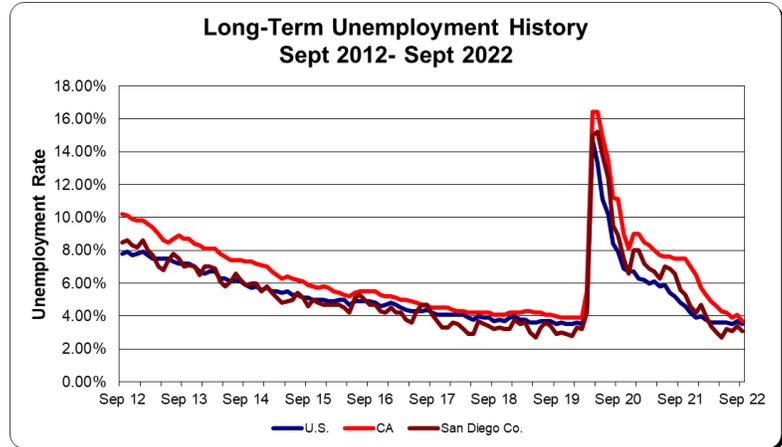
**STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS**

*State and Local Unemployment*

The state unemployment rate increased from 3.9 percent in July to 4.1 percent in August before declining to 3.7 percent in September. The County of San Diego and the City of La Mesa unemployment rates increased from 3.1 percent and 3.2 percent respectively in July to 3.4 percent and 3.4 percent respectively in August before each decreasing to 3.1 percent and 3.1 percent respectively in September.



Total nonfarm employment in California expanded slowly in the latest numbers, growing by 6,500 positions over the month, according to an analysis released jointly with the UCR School of Business Center for Economic Forecasting and Development. August's gains were revised up to 36,000 in the latest numbers, a 16,100 increase from the preliminary estimate of 19,900.



“This is a weaker month than we’ve come to expect this year, with a surprising drop in the state’s labor force,” said Taner Osman, Research Manager at Beacon Economics and the Center for Economic Forecasting. “This suggests that employers will continue to struggle to find workers this year.”

While the state added jobs at a healthy pace in 2021 and 2022, as of September 2022, California economy had not yet recovered all the jobs that were lost during the onset of the pandemic. There are still 24,700 fewer people employed in California compared to pre-pandemic February 2020. Overall, total nonfarm employment in the state has contracted 0.1% since that time compared to a 0.3% increase nationally. California’s payrolls increased by 4.2% from September 2021 to September 2022, outpacing the 3.0% increase nationally over the same period.

### *Local Economic Outlook*

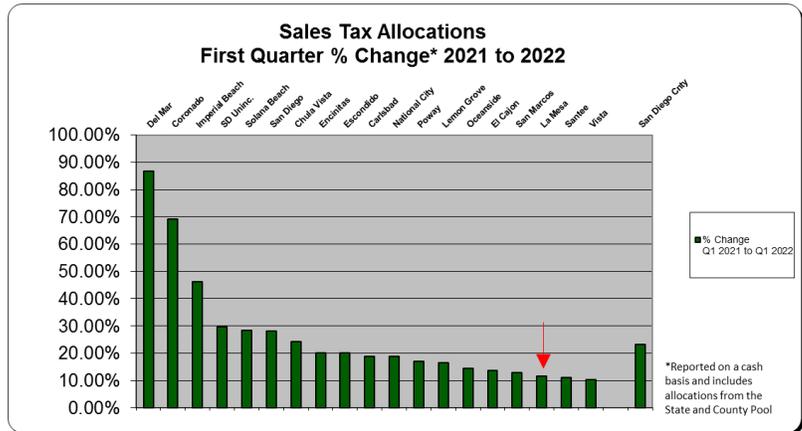
According to Beacon Economics Fall 2022 Economic Forecast, the labor market in San Diego is now at an all-time high and has surpassed its pre-pandemic peak. However, payroll growth has started to slow down. Since the beginning of the year, nonfarm employment has increased by 2.4%, compared to 6.9% during the same period a year earlier.

While it’s impossible to tell how the county would have fared had there not been a pandemic, we can get an idea by applying a trend to the historical data. According to this, it’s estimated that the economy would’ve had roughly 16,000 to 20,000 more jobs by this point.

The housing market has continued to show signs of weakness, although there is a big difference between a housing pause and a housing bust. Beacon Economics doesn’t have a housing correction in its forecast. Weakness in the housing market stems from a slowdown in sales activity. The primary driver of the slowdown was rising interest rates. Even after accounting for local inflation, the real cost of owning a home in San Diego has risen 24.8 percent since the start of this year. Meanwhile, inflation-adjusted average hourly earnings for private-sector employees have declined 2.2 percent.

*Local Sales Tax Allocations*

La Mesa’s receipts from July through September were 11.6 percent above the first sales period in 2021, and place of sale collections soared almost 13.4 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 12 percent. The City’s allocations from the countywide use tax pool grew 4.3 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. The 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.

**GENERAL FUND SUMMARY**

*General Fund Resources*

General Fund revenues received through the first quarter of fiscal year 2022-2023 are in line with budget expectations at 27.3 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 first quarter of the fiscal year will not equate to 25 percent of the total annual revenues that are eventually received.

General Fund Resources	Current Fiscal Tear			Prior Year Comparison	
	2022 - 2023 Budget <sup>1</sup>	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (unaudited)	% of Budget Collected
<b>Through 25% of Fiscal Year</b>					
<b>Revenues:</b>					
<b>Taxes</b>					
Property Tax	\$ 16,937,640.00	\$ 223,332.00	1.3%	\$ 177,575.00	1.1%
Former Tax Increment (RDA)	421,200.00	-	0.0%	343,600.00	122.6%
Sales	17,000,000.00	4,505,249.00	26.5%	1,127,792.00	8.0%
Proposition L	12,100,000.00	3,231,587.00	26.7%	804,074.00	8.1%
Cannabis Business Tax	2,000,000.00	905,347.00	45.3%	2,672.00	0.1%
Other	3,207,680.00	604,858.00	18.9%	145,920.00	4.5%
<b>Subtotal Taxes</b>	<b>\$ 51,666,520.00</b>	<b>9,470,373.00</b>	<b>18.3%</b>	<b>2,601,633.00</b>	<b>5.0%</b>
Licenses & permits	\$ 1,608,400.00	\$ 483,355.00	30.1%	\$ 506,605.00	32.1%
Fines, forfeitures & penalties	433,000.00	97,985.00	22.6%	74,704.00	19.9%
Use of money and property	1,766,140.00	346,776.00	19.6%	290,460.00	21.3%
Revenue from other agencies	1,479,650.00	456,021.00	30.8%	76,478.00	6.1%
Service charges	2,374,120.00	817,426.00	34.4%	555,226.00	29.7%
Other revenue	3,280,000.00	867,641.00	26.5%	8,770.00	6.0%
<b>Total Revenues</b>	<b>\$ 62,607,830.00</b>	<b>12,539,577.00</b>	<b>20.0%</b>	<b>4,113,876.00</b>	<b>6.0%</b>
<b>Other financing sources:</b>					
Interfund transfers in	3,090,200.00	496,149.00	16.1%	579,947.00	19%
Interfund transfers out	(2,448,450.00)	(375,117.00)	15.3%	(233,700.00)	10%
<b>Total other financing sources</b>	<b>641,750.00</b>	<b>121,032.00</b>	<b>18.9%</b>	<b>346,247.00</b>	<b>54%</b>
<b>Plus: Fund Balance at July 1</b>	<b>36,598,856.00</b>	<b>39,777,922.00</b>	<b>92%</b>	<b>36,580,133.00</b>	<b>100%</b>
<b>Total resources</b>	<b>\$ 99,848,436.00</b>	<b>\$ 52,438,531.00</b>	<b>53%</b>	<b>\$ 41,040,256.00</b>	<b>41%</b>

<sup>1</sup> 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 and came in higher when compared to the same period last fiscal year.
- ✓ Property tax revenues received through the first quarter are above the same time last year and are expected to exceed budget.

- ✓ Sales tax revenues received through the first 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 time 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 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*

<b>General Fund Expenditures</b>			
<b>Through 25% of Fiscal Year</b>	<b>2022-2023 Budget<sup>1</sup></b>	<b>YTD Encumbered/ Expended<sup>2</sup></b>	<b>% of Budget</b>
<b>General Fund Department Expenditures</b>			
Police	\$ 24,435,310.00	\$ 6,202,615.00	25.4%
Fire	14,224,510.00	3,774,898.00	26.5%
Public Works	11,153,190.00	3,286,822.00	29.5%
Administrative Services	8,701,590.00	5,132,350.00	59.0%
Community Development	2,530,710.00	655,660.00	25.9%
Community Services	2,103,650.00	627,694.00	29.8%
<b>Total General Fund Expenditures</b>	<b>\$ 63,148,960.00</b>	<b>\$ 19,680,039.00</b>	<b>31.2%</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

- ✓ Most departments are at or slightly above expectations through 25 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%
<b>Source of Revenues:</b>					
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
<b>Total Ending General Fund Reserves</b>	<b>32,051,168.00</b>	<b>36,598,856.00</b>	<b>35,917,640.00</b>	<b>23,591,720.00</b>	<b>36,826,970.00</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 2022-2023.

**CONCLUSIONS**

After a surge in spending at the recovery of the pandemic, the economy is showing signs of slowing down. The war in Ukraine, continuous supply chain disruptions and the demand of goods and services, prices have been rising at rates the United States hasn’t seen in over 40 years. The rise in the federal reserve rate has prompted high mortgage rates that have negatively impacted housing sales. While property tax revenues as well as other General Fund revenues remain stable, we remain cautious about how rising costs could impact consumer spending going into 2023. 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 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.