



2022-2023 Budget Monitoring Report

Quarter Ending December 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 December 31, 2022. 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

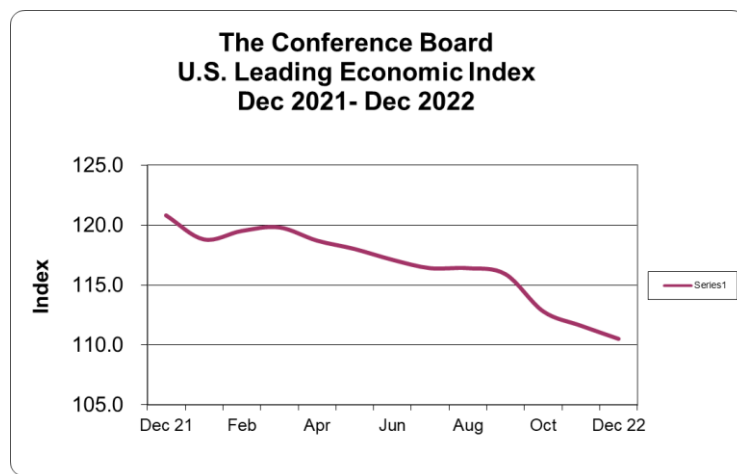
U.S. Leading Economic Index

The Conference Board Leading Economic Index® (LEI) for the U.S. decreased by 1.0 percent in December 2022 to 110.5 (2016=100), following a decline of 1.1 percent in November. The LEI is now down 4.2 percent over the six-month period between June and December 2022—a much steeper rate of decline than its 1.9 percent contraction over the previous six-month period (December 2021–June 2022).

“The US LEI fell sharply again in December—continuing to signal recession for the US economy in the near term,” said Ataman Ozyildirim, Senior Director, Economics, at The Conference Board. “There was widespread weakness among leading indicators in December, indicating deteriorating conditions for labor markets, manufacturing, housing construction, and financial markets in the months ahead. Meanwhile, the coincident economic index (CEI) has not weakened in the same fashion as the LEI because labor market related indicators (employment and personal income) remain robust. Overall economic activity is likely to turn negative in the coming quarters before picking up again in the final quarter of 2023.”

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

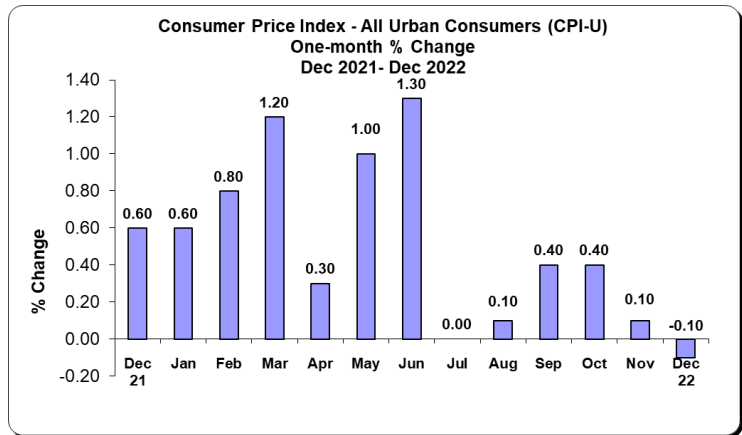
	Index	% Change
Dec 21	120.8	0.80%
Jan	118.8	-1.70%
Feb	119.5	0.60%
Mar	119.8	0.30%
Apr	118.7	-0.90%
May	118.0	-0.60%
Jun	117.1	-0.80%
Jul	116.4	-0.60%
Aug	116.4	0.00%
Sep	115.9	-0.40%
Oct	112.8	-2.70%
Nov	111.6	-1.10%
Dec 22	110.5	-1.00%



Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) declined 0.1 percent in December on a seasonally adjusted basis, after increasing 0.1 percent in November, the U.S. Bureau of Labor Statistics reported in January. Over the last 12 months, the all items index increased 6.5 percent before seasonal adjustment.

The index for gasoline was by far the largest contributor to the monthly all items decrease, more than offsetting increases in shelter indexes. The food index increased 0.3 percent over the month with the food at home index rising 0.2 percent. The energy index decreased 4.5 percent over the month as the gasoline index declined; other major energy component indexes increased over the month.

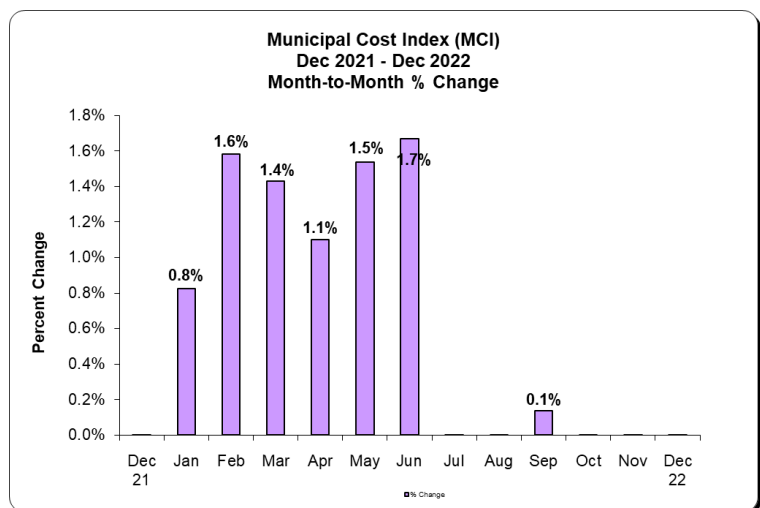


The index for all items less food and energy rose 0.3 percent in December, after rising 0.2 percent in November. Indexes which increased in December include the shelter, household furnishings and operations, motor vehicle insurance, recreation, and apparel indexes. The indexes for used cars and trucks, and airline fares were among those that decreased over the month.

The all items index increased 6.5 percent for the 12 months ending December; this was the smallest 12-month increase since the period ending October 2021. The all items less food and energy index rose 5.7 percent over the last 12 months. The energy index increased 7.3 percent for the 12 months ending December, and the food index increased 10.4 percent over the last year; all of these increases were smaller than for the 12-month period ending November.

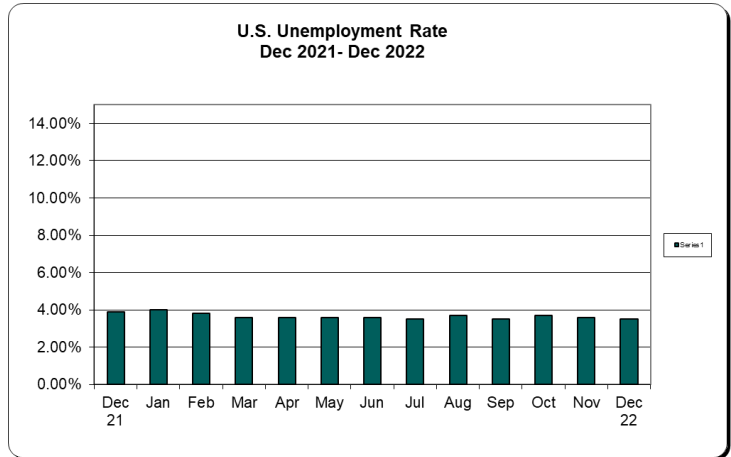
Municipal Cost Index

The Municipal Cost Index (MCI) decreased 0.5 percent in December after decreasing 0.1 percent in November and 0.2 percent in October. Overall, the MCI has increased 6.5 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 223,000 in December, and the unemployment rate edged down to 3.5 percent, the U.S. Bureau of Labor Statistics reported today. Notable job gains occurred in leisure and hospitality, health care, construction, and social assistance. The unemployment rate edged down to 3.5 percent in December and has remained in a narrow range of 3.5 percent to 3.7 percent since March. The number of unemployed persons edged down to 5.7 million in December. These measures have shown little net change since early 2022. These measures are each 1.0 percentage point 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) declined by 146,000 to 1.1 million in December. This measure is down from 2.0 million a year earlier. The long-term unemployed accounted for 18.5 percent of all unemployed persons.



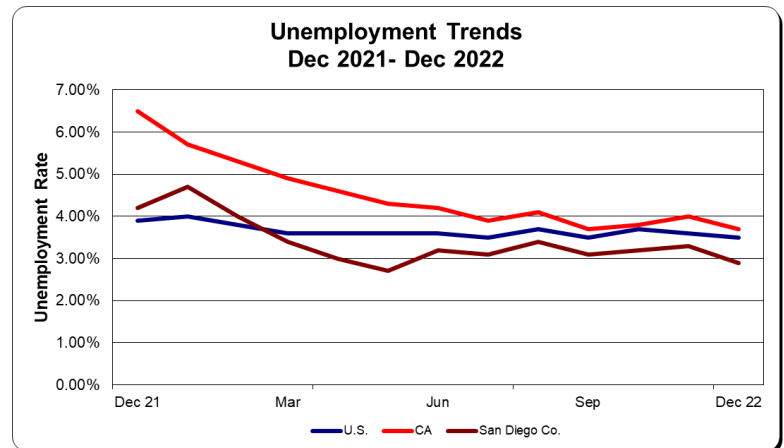
Federal Funds Rate (Discount Rate)

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 4-1/4 to 4-1/2 percent.

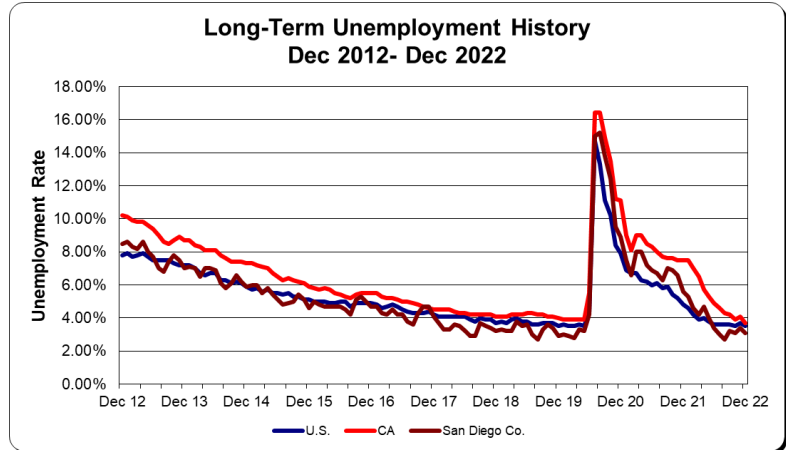
STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS

State and Local Unemployment

The state unemployment rate increased from 3.8 percent in October to 4.0 percent in November before declining to 3.7 percent in December. The County of San Diego and the City of La Mesa unemployment rates increased from 3.1 percent and 3.2 percent respectively in October to 3.3 percent and 3.3 percent respectively in November before each decreasing to 2.9 percent and 2.9 percent respectively in December.



Total nonfarm employment in California expanded modestly in the latest numbers, with total nonfarm employment in the state growing by just 16,200 positions during December, according to an analysis released jointly with the UCR School of Business Center for Economic Forecasting and Development. November's gains were also revised down to 19,900 in the latest numbers, a 6,900 decrease from the preliminary estimate of 26,800.



“During the year, California’s employers added jobs more quickly than was the case in the national economy, but labor shortages in the state dampened job growth towards the end of the year and will continue to be a drag on job growth in 2023,” said Taner Osman, Research Manager at Beacon Economics and the Center for Economic Forecasting.

Overall, California added jobs at a healthy pace in 2021 and 2022. As of December 2022, the state had recovered all of the jobs that were lost in March and April 2020 at the pandemic’s outset, and there are now 70,000 more people employed in California compared to February 2020. Over this time, total nonfarm employment in the state has grown 0.4% compared to a 0.8% increase nationally. California’s economy increased payrolls by 3.6% from December 2021 to December 2022, outpacing the 3.0% increase nationally over the same period.

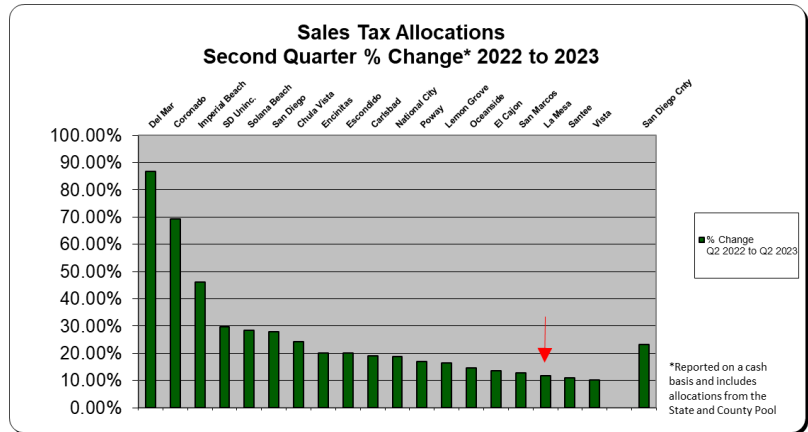
Local Economic Outlook

The unemployment rate is projected to drop to around 2.8% in the first quarter of 2023 before experiencing a slight uptick to 3.1% by the end of 2023 as Federal Reserve interest rate hikes cool down economic growth. Adding to this, the unemployment rate is expected to increase slightly due to a greater number of residents joining the labor market, which changes the calculations. In fact, recent labor market gains portend this trend; in November, San Diego’s labor force grew by 3,600 (0.2%) according to San Diego Workforce Partnership.

The housing market is showing signs of weakness, driven by a slowdown in sales activity, which in turn is being led by higher long-term mortgage rates and rapidly rising short-term interest rates as the Federal Reserve tries to cool inflation. Accordingly, Beacon Economics is forecasting a modest housing price correction in its forecast as higher interest rates cool housing purchases. Additionally, an already prohibitively high price level in San Diego is spurring many would-be buyers to search in more affordable markets in the inland parts of the state. Beacon Economics expects median year-over-year home price growth in the San Diego region of 2.7% in the fourth quarter of 2022, but then declining through 2023.

Local Sales Tax Allocations

La Mesa’s receipts from July through September were 10.7 percent above the second sales period in 2022. The regional economy continued to show strength during the second three months of the year. The City’s largest sales tax group, general consumer goods, jumped 7.8 percent. The largest gain was in Building and Construction, which grew 34.4 percent from the same time period last year. The City’s allocations from the countywide use tax pool grew 2.2 percent. The pools remain a solid source of local revenue, bolstered by taxes on e-commerce.



Restaurants and hotels continue to see business growth as sales tax revenues grew by 5.2 percent. Cannabis revenues lifted the food-drug group; and higher local gas prices and increased travel pushed up receipts service station receipts, but not as significant as last quarter. We expect to see this category decrease in the coming months.

Voter approved Measure L also posted stellar results supported by building and construction, autos and transportation, food and drugs, and general consumer goods.

STATE BUDGET

As the State prepares its Fiscal Year 2023-2024 budget, the Governor announced earlier this month that due to shortfalls in tax revenue, significant cuts will be made to the Fiscal Year 2023-2024 budget. While various cuts were made, the proposed budget does not include any mention of redirecting local agency funds to help address state budget shortfalls.

Some of the significant allocations *include* continued funding for homelessness, low-income housing, organic waste recycling programs, water and electricity relief, and wildfire response. Some of the programs that will have funding reduced will affect parks and open space, library investment, zero emission vehicles, and transportation programs.

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 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 ¹	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (unaudited)	% of Budget Collected
Through 50% of Fiscal Year					
Revenues:					
Taxes					
Property Tax	\$ 16,937,640.00	\$ 814,000.00	4.8%	\$ 3,555,335.00	21.0%
Former Tax Increment (RDA)	421,200.00	-	0.0%	-	0.0%
Sales					
Proposition L	17,000,000.00	5,567,335.00	32.7%	5,430,634.00	31.9%
Cannabis Business Tax	12,100,000.00	4,049,045.00	33.5%	3,890,028.00	32.1%
Other	2,000,000.00	648,440.00	32.4%	629,612.00	31.5%
	3,207,680.00	996,826.00	31.1%	963,863.00	30.0%
Subtotal Taxes	\$ 51,666,520.00	12,075,646.00	23.4%	14,469,472.00	28.0%
Licenses & permits	\$ 1,608,400.00	\$ 740,220.00	46.0%	\$ 972,584.00	60.5%
Fines, forfeitures & penalties	433,000.00	92,430.00	21.3%	148,620.00	34.3%
Use of money and property	1,766,140.00	550,970.00	31.2%	625,176.00	35.4%
Revenue from other agencies	1,479,650.00	513,690.00	34.7%	750,382.00	50.7%
Service charges	2,374,120.00	1,296,510.00	54.6%	1,017,750.00	42.9%
Other revenue	3,280,000.00	(94,400.00)	-2.9%	90,938.00	2.8%
Total Revenues	\$ 62,607,830.00	15,175,066.00	24.2%	18,074,922.00	6.0%
Other financing sources:					
Interfund transfers in	3,090,200.00	888,410.00	28.7%	1,222,160.00	40%
Interfund transfers out	(2,448,450.00)	(556,250.00)	22.7%	(529,900.00)	22%
Total other financing sources	641,750.00	332,160.00	51.8%	692,260.00	108%
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	\$ 55,285,148.00	55%	\$ 55,347,315.00	55%

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

- ✓ Property tax was received in January and will be reflected in the next 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.

- ✓ 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

General Fund Expenditures			
Through 50% of Fiscal Year	2022-2023 Budget¹	YTD Encumbered/ Expended²	% of Budget
General Fund Department Expenditures			
Police	\$ 24,435,310.00	\$ 10,231,440.00	41.9%
Fire	14,224,510.00	6,151,870.00	43.2%
Public Works	11,153,190.00	4,718,810.00	42.3%
Administrative Services	8,701,590.00	6,432,200.00	73.9%
Community Development	2,530,710.00	1,335,310.00	52.8%
Community Services	2,103,650.00	970,160.00	46.1%
Total General Fund Expenditures	\$ 63,148,960.00	\$ 29,839,790.00	47.3%

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 slightly below expectations through 50 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

Talk of a recession continues. Data markers such as job gains, production and retail sales are still indicating growth. The Fed has hiked fund rates by 300 basis points and 10-year bond yields are at 4%, which is twice the level since the beginning of 2022. Vulnerabilities in Europe as the war in Ukraine continues, China’s housing market problems, and the continued impact on the global food supply chain may have a negative impact on the U.S. Only time will tell if we enter a recession as a soft landing or hard crash. For now, the overall General Fund expenditures continue to be within budgetary expectations as we assumed market increases. 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.