



2020-2021 Budget Monitoring Report

Quarter Ending December 31, 2020

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

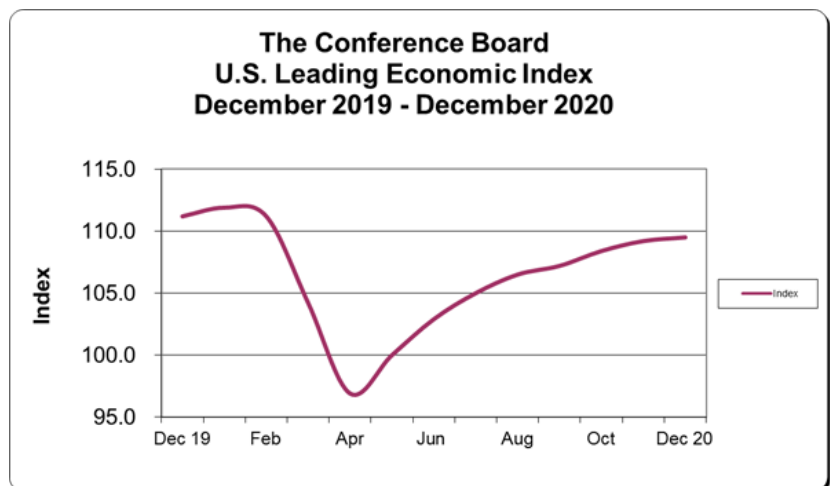
NATIONAL ECONOMIC INDICATORS AND FORECASTS

U.S. Leading Economic Index

The Conference Board Leading Economic Index (LEI) for the U.S. increased 0.3 percent in December to 109.5 following a 0.7 percent increase in November and a 1.1 percent increase in October. When compared to the same time period in 2019, the LEI has decreased 1.5 percent. “The US LEI’s slowing pace of increase in December suggests that US economic growth continues to moderate in the first quarter of 2021. Improvements in the US LEI were very broad-based among the leading indicators, except for rising initial claims for unemployment insurance and a mixed consumer outlook on business and economic conditions,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “While the resurgence of COVID-19 and weak labor markets remain barriers to growth, The Conference Board expects the economy to expand by at least 2.0 percent (annual rate) in Q1 and then gain momentum throughout the year.”

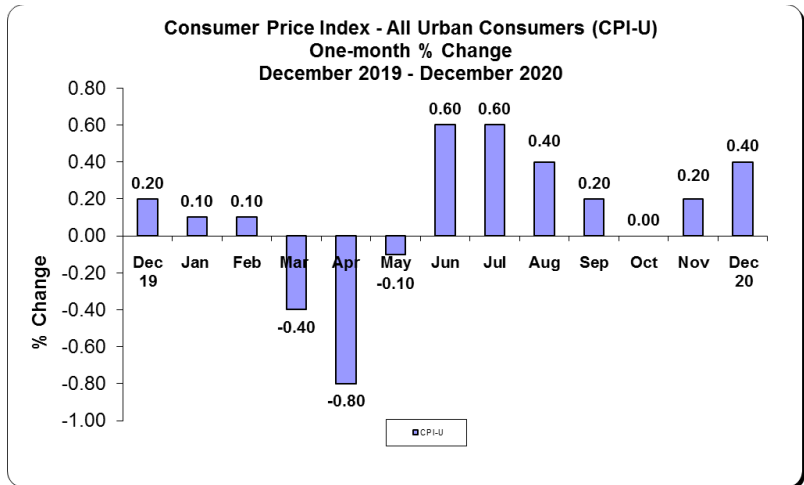
**The Conference Board
 U.S. Leading Economic Index
 (2016 = 100)**

	Index	% Change
Dec 19	111.2	-0.30%
Jan	111.9	0.60%
Feb	111.2	-0.60%
Mar	104.2	-6.30%
Apr	96.9	-7.00%
May	100.0	3.20%
Jun	102.9	2.90%
Jul	105.0	2.00%
Aug	106.5	1.40%
Sep	107.2	0.70%
Oct	108.4	1.10%
Nov	109.2	0.70%
Dec 20	109.5	0.30%



Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in December on a seasonally adjusted basis after rising 0.2 percent in November. Over the last 12 months, the all items index increased 1.4 percent before seasonal adjustment



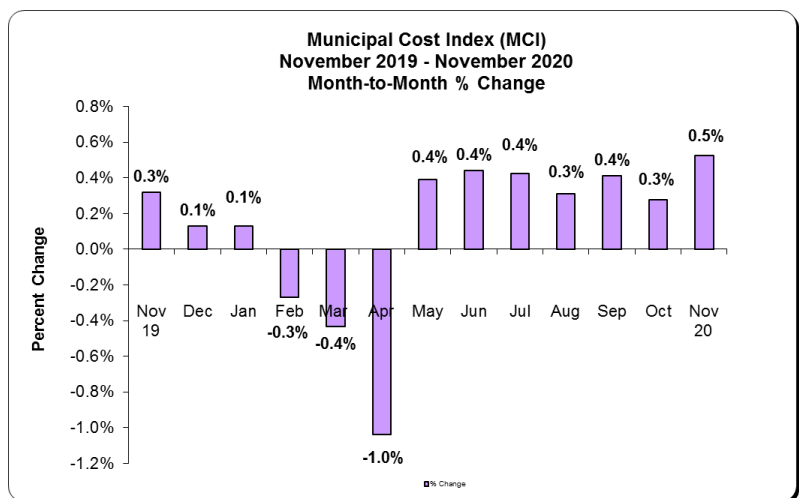
The seasonally adjusted increase in the all items index was driven by an 8.4-percent increase in the gasoline index, which accounted for more than 60 percent of the overall increase.

The other components of the energy index were mixed, resulting in an increase of 4.0 percent for the month. The food index rose in December, as both the food at home and the food away from home indexes increased 0.4 percent. The index for all items less food and energy increased 0.1 percent in December after rising 0.2 percent in the previous month. The indexes for apparel, motor vehicle insurance, new vehicles, personal care, and household furnishings and operations all rose in December. The indexes for used cars and trucks, recreation, and medical care were among those to decline over the month.

The all items index rose 1.4 percent for the 12 months ending December, a slightly larger increase than the 1.2-percent rise reported for the period ending November. The index for all items less food and energy rose 1.6 percent over the last 12 months, as it did in the periods ending October and November. The food index rose 3.9 percent over the last 12 months, while the energy index fell 7.0 percent.

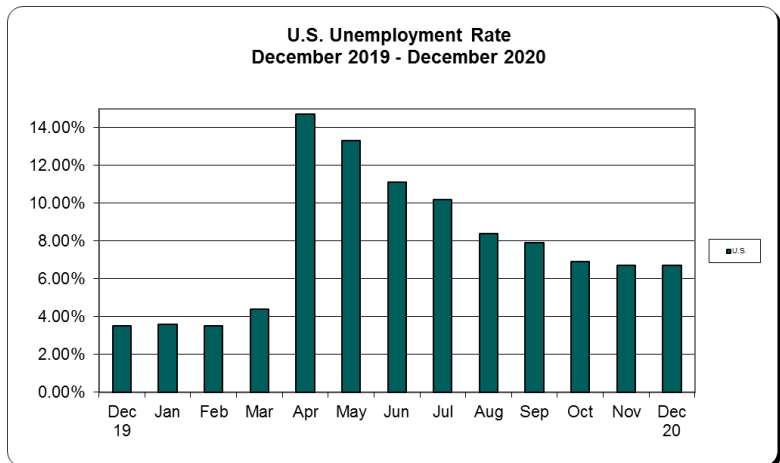
Municipal Cost Index

The Municipal Cost Index (MCI) increased 0.5 percent in November after increasing 0.3 percent in October. The figures for December were not available at the time this report was prepared. Overall, the MCI has increased 1.3 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 declined by 140,000 in December, and the unemployment rate was unchanged at 6.7 percent. The decline in payroll employment reflects the recent increase in coronavirus (COVID-19) cases and efforts to contain the pandemic. In December, job losses in leisure and hospitality and in private education were partially offset by gains in professional and business services, retail trade, and construction. In December, both the unemployment rate, at 6.7 percent, and the number of unemployed persons, at 10.7 million, were unchanged. Although both measures are much lower than their April highs, they are nearly twice their pre-pandemic levels in February (3.5 percent and 5.7 million, respectively). In December, the number of persons jobless less than 5 weeks increased by 449,000 to 2.9 million, while the number of persons jobless 15 to 26 weeks declined by 303,000 to 1.6 million. The number of long-term unemployed (those jobless for 27 weeks or more), at 4.0 million, was essentially unchanged in December but has increased by 2.8 million since February. The number of those jobless for 27 weeks or more accounted for 37.1 percent of total unemployed in December.



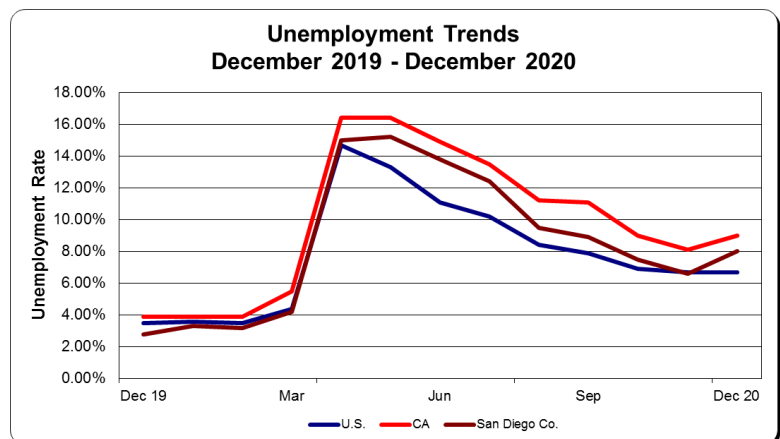
Federal Funds Rate (Discount Rate)

A recent statement issued by the Federal Open Market Committee (FOMC) indicates that the path of the economy will depend significantly on the course of the virus, including progress on vaccinations. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses considerable risks to the economic outlook. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee’s assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time.

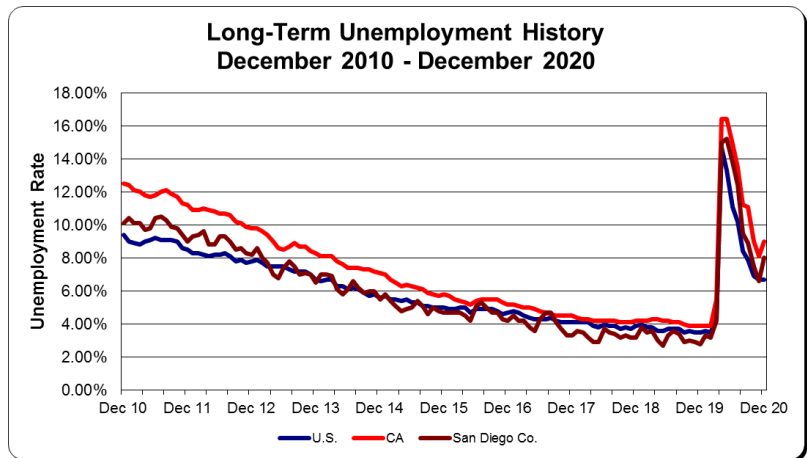
STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS

State and Local Unemployment

The state unemployment rate declined from 9.0 percent in October to 8.1 percent in November before increasing in December back to 9.0 percent. The County of San Diego and the City of La Mesa unemployment rates decreased to 7.5 percent and 7.4 percent respectively in October and 6.6 percent and 6.4 percent respectively in November before each increasing to 8.0 percent and 8.1 percent in December.



California’s labor market recovery regained some momentum in October, with the level of employment growing at its fastest pace since June, according to an analysis released jointly by Beacon Economics and the UCR School of Business Center for Economic Forecasting and Development. Total nonfarm employment in the state expanded by 145,500 positions over the month.



“The expansion of the state’s labor force is one of the brightest spots we have seen in the labor market for many months,” said Taner Osman, Research Manager at Beacon Economics and the UCR Center for Forecasting. “Unfortunately, it comes just as Covid-19 cases are again surging in California and restrictions on activity have been put in place. Beyond the public health effects, the new surge is terrible timing for the 1.5 million workers who have been out of a job since February.”

Despite the solid performance, only 44 percent of the jobs lost in California during the pandemic have been recovered, with 1.5 million fewer workers employed compared to February 2020. Total nonfarm employment in the state has contracted by 8.4 percent since February. This pace of growth trails the nation overall, where the labor market has shrunk by 6.6 percent over the same period. The statewide restrictions on business activity and consumer behavior, will act as a speed bump to the momentum gained this month, according to the analysis.

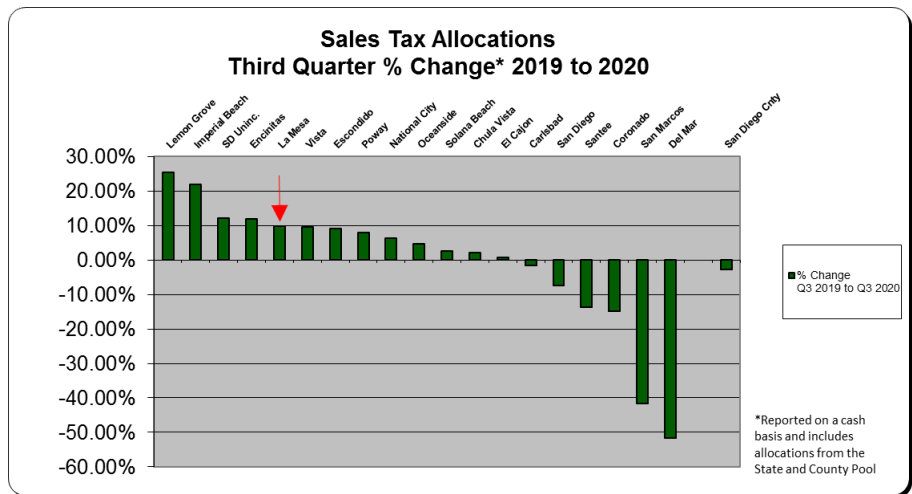
Local Economic Outlook

According to the Beacon Economics Winter Forecast, “the San Diego labor market’s recovery in October fell off its pace from previous months. But its housing market has quickly recovered from the initial shock of the COVID-19 pandemic.”

Despite continuing to slow, the positive employment gains in October mean the San Diego labor market has recovered 48 percent of the jobs lost in March and April. San Diego leads California’s other major metro areas in this regard. Unfortunately, COVID-19 cases are again surging across the state and county, and restrictions on activity have been enacted. Beyond the public health implications of rising cases in the county, the new surge presents renewed challenges for the 120,000 workers who have been unemployed since February.

Local Sales Tax Allocations

La Mesa’s third quarter 2020 sales tax revenues were 9.8 percent above the third sales period in 2019. This quarter represents sales made between July and September 2020. This was the second full quarter impacted by the pandemic, with local point of sale receipts down 1.7 percent compared to the prior year. The City’s restaurants declined 23.8 percent, with many eateries closed or only



able to provide limited services as a result of the pandemic shutdowns. Fuel-service station receipts were depressed as the cost of gas and overall consumption remains low. As an offset, general consumer goods saw positive returns, as well as in the building and construction group. Food and drug growth was driven by the recent addition of cannabis related merchants.

STATE BUDGET

Although the state economy abruptly ground to a halt in the spring with the emergence of coronavirus disease 2019, it has experienced a quicker rebound than expected. While negative economic consequences of the pandemic have been severe, they do not appear to have been as catastrophic from a fiscal standpoint as the budget anticipated. But, the recovery has been uneven. Many low-income Californians remain out of work, while most high-income workers have been spared.

The Governor presented his FY 21-22 Budget to the Legislature on January 8, 2020. The Budget includes a \$14 billion investment to provide immediate relief for individuals and businesses disproportionately impacted by the pandemic, the safe reopening of schools, and investment in strategies for creating quality jobs. The Budget focuses on education and makes new proposals to address health care and housing affordability, and supports the increase in the state’s minimum wage to \$14 per hour. Funding for environmental programs to reduce the impacts of climate change, support zero-emissions vehicle goals and an additional \$1 billion to address wildfire and forest resilience strategies is also included. In addition, the Budget reflects \$34 billion in budgetary reserves and discretionary surplus and continues progress in paying down the state’s retirement liabilities.

The State’s budget situation is evolving as more data becomes available. 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 second quarter of fiscal year 2020-2021. The FY 20-21 budget amounts for some revenue sources such as sales tax and Proposition L transaction tax were reduced from FY 19-20 figures to be more in line with actual anticipated collections due to the impacts of COVID-19. 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 second quarter of the fiscal year will not equate to 50 percent of the total annual revenues that are eventually received.

General Fund Resources	Current Fiscal Year			Prior Year Comparison	
	2020-2021 Budget ¹	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (audited)	% of Budget Collected
Through 50% of Fiscal Year					
Revenues:					
Taxes					
Property Tax	\$ 15,509,380	\$ 3,586,123	23.1%	\$ 3,237,507	22.1%
Former Tax Increment (RDA)	409,290	-	0.0%	-	0.0%
Sales	12,095,370	4,643,265	38.4%	4,286,188	33.5%
Proposition L	8,456,000	3,236,084	38.3%	2,995,115	34.5%
Other	3,745,170	1,297,339	34.6%	935,153	24.7%
Subtotal taxes	40,215,210	12,762,810	31.7%	11,453,962	28.5%
Licenses & permits	1,359,100	699,668	51.5%	1,119,220	70.9%
Fines, forfeitures & penalties	427,600	114,990	26.9%	209,853	37.9%
Use of money and property	1,467,600	419,023	28.6%	438,541	32.5%
Revenue from other agencies	1,037,400	414,431	39.9%	646,946	63.2%
Service charges	2,292,550	512,075	22.3%	1,108,929	48.9%
Other revenue	147,200	90,241	61.3%	114,376	115.3%
Total revenues	46,946,660	15,013,238	32.0%	15,091,828	32.0%
Other financing sources:					
Interfund transfers in	2,754,740	1,179,575	42.8%	1,168,097	40.3%
Interfund transfers out	(1,291,430)	(341,800)	26.5%	(495,550)	32.6%
Total other financing sources	1,463,310	837,775		672,547	
Plus: Fund Balance at July 1	27,919,540	32,035,623	114.7%	31,499,284	100.0%
Total resources	\$ 76,329,510	\$ 47,886,636	62.7%	\$ 47,263,659	59.1%

¹ 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 second quarter are slightly above the same time last year. Because the majority of property tax revenues are received in December and April, second quarter revenues are historically below 50 percent.

- ✓ Sales tax revenues received through the second quarter are above expectations when compared to the same time last year.
- ✓ Proposition L sale tax revenues are consistent with base sales tax revenues and are above expectations when compared to 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.
- ✓ Other Taxes are exceeding budgetary expectations and when compared to the same time last year due to the collection of the cannabis business tax.
- ✓ Other General Fund revenues, including licenses and permits, fines, forfeitures and penalties, which includes parking enforcement, and service charges, which includes recreation classes and swimming pool admissions, are each down when compared to last year as a direct impact of COVID-19. The Revenue from Other Agencies category is down when compared to last year due to the timing of the billing to other agencies for the maintenance of Harry Griffen Park. However, these revenues are anticipated to be collected before the end of the fiscal year.
- ✓ 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

- ✓ Most departments are at or slightly above expectations through 50 percent of the fiscal year.
- ✓ The Community Development Department exceeds budgetary expectations due to encumbrances for development related services that will be reimbursed.

General Fund Expenditures			
Through 50% of Fiscal Year	2020-2021 Budget ¹	YTD Encumbered/ Expended ²	% of Budget
General Fund Department Expenditures			
Police	\$ 20,617,480	\$ 10,421,724	50.5%
Fire	12,359,800	6,279,163	50.8%
Public Works	9,703,330	5,151,625	53.1%
Administrative Services	6,597,970	3,303,598	50.1%
Community Development	2,469,250	1,480,649	60.0%
Community Services	1,856,360	843,915	45.5%
Total General Fund Expenditures	\$ 53,604,190	\$ 27,480,673	51.3%

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

General Fund Reserves

The Budget Monitoring Report for June 30, 2020 included an estimate of available reserves for fiscal year 2019-2020 reflecting the impact of COVID-19 on revenues and expenditures. The revised ending reserves for fiscal year 2019-2020 were forecasted to be \$27,874,007 based on anticipated revenue impacts of COVID-19. The audited actual ending General Fund reserves that was reported in the June 30, 2020 financial statements is \$32,051,168, a difference of \$4.1 million. The increase over the projected amount is mostly due to budgetary savings in salaries, benefits and personnel expenses (\$1.1 million), materials, supplies and services (\$2.4 million) and some higher than anticipated revenues. The revised forecast for COVID-19 assumed a 9 percent (\$1.2 million) decrease in sales tax revenue and a 7 percent (\$671,000) decrease in Proposition L transaction tax revenue, however, the actual impacts were not as severe, with sales tax revenue declining 6.7 percent (\$888,000) and Proposition L transaction tax declining only 2 percent (\$200,000). The addition of \$600,000 in cannabis business tax revenue in fiscal year 2019-2020 also helped improve the bottom line.

	Actuals			FY 19-20 Revised COVID (Forecast)	FY 20-21 Mid-Biennium Original
	FY 17-18	FY 18-19	Audited FY 19-20		
Available Reserves at June 30	31,578,785	31,499,284	32,051,168	27,874,007	22,805,320
Reserves as % of Operating Expenditures	65.3%	60.4%	61.5%	56.3%	42.5%
Source of Reserves:					
Property Sale (Police Station)	3,050,000	3,050,000	3,050,000	3,050,000	3,050,000
Property Sale (Other land)	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Proposition L Revenues	8,916,466	8,940,142	8,741,926	8,673,000	8,673,000
Reserves from Operations	15,612,320	15,509,142	16,259,242	12,151,007	7,082,320
Total Ending General Fund Reserves	31,578,785	31,499,284	32,051,168	27,874,007	22,805,320

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 2020-2021.

CONCLUSIONS

The current COVID-19 public health emergency and subsequent shock to the state and local economy continues to have a negative impact on some of the City's main revenues sources, although the impacts are not as severe as previously anticipated. Property tax revenues as well as other General Fund revenues remain stable in the current economy, although at levels requiring careful monitoring. Proposition L sales taxes are providing much needed revenues to fill the structural budget deficits caused by lower revenues. 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.