



2008-2009 Budget Monitoring Report

Quarter Ending June 30, 2009

The Administrative Services Department – Finance Division 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 Gary Ameling at (619) 667-1122 if you have any questions, comments, or suggestions.

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EXECUTIVE SUMMARY

ECONOMY

- During the past quarter the national recession that began in December 2007, appears to be waning. Increases in the Consumer Confidence Index and the Index of Leading Economic Indicators, along with a slowing of job losses, have led economists to predict that the recession will come to an end during the third quarter. However, economists caution that the recovery will likely be marked by a substantial period of slow growth.
- Below is a summary of recent national economic indicators and other news:
 - ✓ The Conference Board's Consumer Confidence Index posted significant increases in April and May before declining in June. The readings for the quarter were 40.8 in April (up from 26.9 in March), 54.8 in May, and 49.3 in June. Lynn Franco, the Director of the Conference Board's Consumer Research Center, attributed the rises in April and May primarily to consumers having a more favorable short-term outlook. In reviewing the decline in June, she indicated that the expectation is for "...less negative conditions in the months ahead, as opposed to strong growth".
 - ✓ The Consumer Price Index was unchanged in April, then increased by 0.1% in May and 0.7% in June. The large June increase was primarily due to increases in energy costs. The change in the index during the last 12 months remains negative at -1.4%. The energy index declined 2.4% in April, rose 0.2% in May, and jumped up 7.4% in June. Despite the June increase, the index has declined 25.5% over the past year. After removing the energy and food components, the core rate of inflation rose 0.3% in April, 0.1% in May, and 0.2% in June for a 12 month change of 1.7%. The Federal Reserve's unofficial target for the core rate of inflation is 2%, on an annualized basis.
 - ✓ The Municipal Cost Index was flat in April, declined 0.1% in May, and rose 0.3% in June. For the past 12 months, the index has decreased by 1.2%. This index, as published by *American City & County* magazine since 1978, measures changes in the cost of providing services to residents of cities and counties and includes components for cost of materials and supplies, wages, and contracted services. This index typically lags the Consumer Price Index by one to two months.
 - ✓ The Conference Board's Index of Leading Economic Indicators increased each month during the quarter. The Index was up 1.0% in April, 1.3% in May, and 0.7% in June. The six month change in the Index is now a positive 2.0% (a 4.1% annualized rate). Gains were widespread during the quarter with seven of the ten indicators that make up the Index registering increases each month.

ECONOMY (CONT'D)

- ✓ The seasonally adjusted U.S. unemployment rate passed the 9% mark during the quarter with readings of 8.9% in April, 9.4% in May, and 9.5% in June. The 9.5% reading is the highest since August 1983. The June 2008 reading was 5.6% (3.9% below the current reading). The economy continued to shed jobs, although at a slower pace, with the loss of 1.3 million non-farm jobs during the quarter. This brings the total job losses since the beginning of 2008 to 6.4 million.
- ✓ Since the Federal Reserve lowered the Federal Funds Rate from 5.25% in September 2007 to an all-time low range of 0.0% to 0.25% in December 2008, they have left the benchmark rate stable. With inflation remaining low, most economists now expect the Fed to keep the rate constant until at least mid-2010.
- ✓ The most recent Blue Chip Economic Indicators survey of private economists showed that 90% of economists believe the recession will end in the third quarter. However, the recovery is expected to be U-shaped, with slower than normal growth over the next year before stronger growth is expected to kick in during the second half of 2010. Some economists also predict that this may be another “jobless recovery” where employment continues to be depressed until long after the recovery has taken hold.
- Some California economic indicators also began to show signs of improvement during the past quarter. However, the employment picture continued to worsen. Similar to the recession in the mid-1990s, California has suffered a more severe blow than the rest of the country and will likely take more time to recover. The following is a summary of recent California economic news:
 - ✓ The State unemployment rate (seasonally adjusted) has now been above the national unemployment rate for 36 consecutive months. The unemployment rate readings during the quarter were 11.1% in April and 11.6% in May and June. Although the June rate was a new record high, the pace of rise in the rate has slowed giving some hope that the rate will peak in the next few months. One year ago, in June 2008, the unemployment rate stood at 7.1%.
 - ✓ The Conference Board's Help-Wanted Online Data Series tracks the number of new unduplicated online jobs posted for every 100 people within each of 52 large Metropolitan Statistical Areas (MSAs). This quarter, San Diego's online jobs posted per 100 persons in the labor force increased with readings of 2.4 in April, and 2.7 in May and June. This compares to national readings of 2.0, 2.2, and 2.1 postings per 100 people during this same time period. San Diego ranks number 18 of the 52 MSAs based on the June rate.
 - ✓ San Diego County's unadjusted unemployment rate dipped from the March reading of 9.5% to 9.2% in April, before rising to 9.6% in May and 10.1% in June. The June 2008 rate was 5.9%.
 - ✓ La Mesa's unadjusted unemployment rate followed the same trend as the County's dropping from 7.9% in March to 7.7% in April, then rising to 8.0% in May and 8.4% in June. The June 2008 rate was 4.9%.

ECONOMY (CONT'D)

- ✓ The San Diego County Index of Leading Economic Indicators declined 2.2% in March completing a period in which it declined for 35 of 36 months. The Index turned during the quarter with increases of 0.2% in April, 0.3% in May and 0.4% in June. University of San Diego economist Dr. Alan Gin noted that “a sharp rise in consumer confidence supported by solid advances in building permits, local stock prices, and the outlook for the national economy pushed the USD Index to its third gain in a row...”. Dr. Gin cautions that the employment picture continues to be a major deterrent to the region pulling out of the recession.
- ✓ Economists at the Beacon Economics 2009 San Diego Economic Forecast Conference on April 14, 2009 felt that despite the preponderance of negative economic reports, there are signs that the economy will begin to recover in early to mid-2010 with housing recovering in 2012.

STATE BUDGET FOR 2009-2010

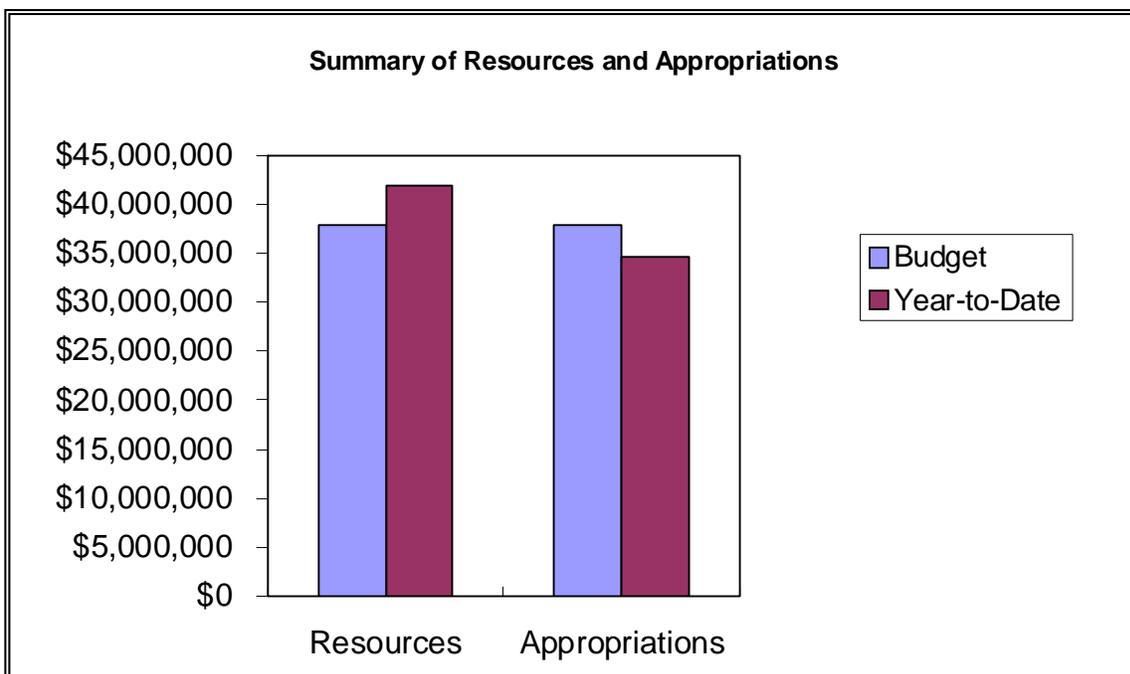
- On July 28, Governor Schwarzenegger signed a revised State budget for 2009-2010 that supposedly closed the gap between revenues and expenditures. As has been written in various newspaper articles since however, the consensus is that the budget is really just a band-aid covering up the real issues. Its is only balanced due to resorting to accounting gimmicks, temporary spending cuts, one-time fixes, and borrowings and takeaways from local government.
- The adopted State budget has two main impacts on La Mesa that are included in the 2009-2011 Final Budget:
 - ✓ The State suspended Proposition 1A (2004) and will borrow 8% of local government property taxes during 2009-2010 to be repaid with interest no later than June 30, 2013. For La Mesa, our share is estimated to be about \$1,046,000. The borrowing will result in lower reserve levels for the next three fiscal years, and likely necessitate additional cash flow borrowing. As the State did not really solve their ongoing structural deficit, local government remains concerned that they will have difficulty paying this loan back on time.
 - ✓ The State once again is attempting to takeaway monies from Redevelopment Agencies. For La Mesa, the estimated impact is about \$1,081,000 in 2009-2010 and \$225,000 in 2010-2011. As two of La Mesa’s three redevelopment project areas were planning on making debt service payments on debt owed to the City’s General Fund, the takeaway will have a direct impact on General Fund reserves and likely necessitate additional cash flow borrowing. The California Redevelopment Association and the League of California Cities are working to challenge the constitutionality of this takeaway (note that the State’s similar planned takeaway of redevelopment monies was ruled unconstitutional in May 2009).
- Staff will continue to closely monitor the State budget situation and its impacts on La Mesa.

GENERAL FUND SUMMARY

- Beginning fund balance exceeded budget by almost \$400,000 due to expenditure constraints put into place in 2007-2008. See pages 7-9 for more information.
- General Fund resources finished the year above budget by \$4.1 million. This was primarily due to the unbudgeted \$4 million of land sale proceeds for the sale of the property at the northeast corner of Baltimore Drive and El Cajon Boulevard. Undercollection of our base sales tax was offset by the unbudgeted collection of the first Proposition L sales tax payments. See pages 7-9 for more information.
- General Fund department expenditure savings, due primarily to expenditure controls put into place, exceeded budget expectations by almost \$1.2 million. Of this amount, \$102,000 is being requested as carryforward budget adjustments as part of the 2009-2011 Final Budget. See page 10 for more information.
- The General Fund's ending fund balance (i.e., reserves) at year end was \$5.3 million above budget due to the combination of the above described resource and expenditure variances. Unfortunately about \$2.2 million of this amount will be paid to the State per their 2009-2010 Budget which includes a borrowing of local government property taxes and a takeaway of redevelopment agency monies.
- The following page contains a table and graph displaying the General Fund resource and appropriation budgets and year-to-date (YTD) collections or expenditures for fiscal year 2008-2009. For more detailed information refer to the Resources or Appropriations sections of this report.

Summary of General Fund Resources and Appropriations			
Through 100% of Year	2008-2009 Budget (1)	YTD Collected/ Expended (2)	% of Budget Collected/ Expended
Resources			
Beginning Fund Balance	\$3,475,540	\$3,872,538	111.4%
Revenues	31,546,240	35,013,749	111.0%
Plus: Operating Transfers In	4,504,150	4,566,940	101.4%
Less: Operating Transfers Out	(1,649,810)	(1,522,270)	92.3%
Total Resources	<u>\$37,876,120</u>	<u>\$41,930,957</u>	110.7%
Appropriations			
Department Expenditures	\$36,838,960	\$34,529,643	93.7%
Less: Estimated Underexpenditure	(1,095,830)	0	0.0%
Ending Fund Balance	2,132,990	0	0.0%
Total Appropriations	<u>\$37,876,120</u>	<u>\$34,529,643</u>	91.2%

(1) Budget reflects any amendments approved by the City Council through end of quarter reported.
(2) Includes expenditures encumbered through end of quarter reported.



RESOURCES

General Fund Resources			
Through 100% of Year	2008-2009 Budget (1)	YTD Collected	% of Budget Collected
Beginning Fund Balance	\$3,475,540	\$3,872,538	111.4%
Revenues:			
Taxes			
Property	10,383,000	10,361,680	99.8%
Sales	11,359,000	10,046,573	88.4%
Proposition L	0	1,305,070	NA
Other	2,940,700	2,898,600	98.6%
Subtotal Taxes	24,682,700	24,611,923	99.7%
Licenses & Permits	1,014,000	798,872	78.8%
Fines, Forfeitures and Penalties	644,000	610,869	94.9%
Use of Money and Property	837,200	819,482	97.9%
Revenue from Other Agencies	1,238,770	913,673	73.8%
Service Charges	2,009,200	2,082,435	103.6%
Other Revenue	1,120,370	5,176,495	462.0%
Total Revenues	31,546,240	35,013,749	111.0%
Plus: Interfund Transfers In	4,504,150	4,566,940	101.4%
Less: Interfund Transfers Out	(1,649,810)	(1,522,270)	92.3%
Total Resources	\$37,876,120	\$41,930,957	110.7%
(1) Budget reflects any amendments approved by the City Council through end of quarter reported.			

Current Highlights

- Property tax collections ended the year about \$21,000 below budget overall with higher property tax in lieu of vehicle license fee payments and higher than normal delinquent property tax payments, mostly offsetting lower than budgeted current property tax collections.

Current Highlights (Cont'd)

- Sales tax collections ended the year well below budget:
 - ✓ Through year end, our base sales tax collections came in \$1,102,000 below budget (significantly below last year and more below budget than previously estimated). First quarter collections (representing transactions that took place in January through March period) were 8.3% below the prior year. The largest decline was in the autos and transportation category with a 19.4% drop due to lower automobile sales.
 - ✓ Property tax in lieu of sales tax payments from the County were below budget by \$210,000 primarily due to a negative adjustment necessitated by actual 2007-2008 allocations being higher than the actual amount of sales tax generated in La Mesa.
- Proposition L sales tax collections began flowing to the City in June (representing April transactions). The July and August payments were also accrued to this fiscal year as they represent transactions that took place in May and June. These first three payments from the State Board of Equalization (SBOE) are advances based on estimates with the first "clean-up" payment coming in September. The first three advances totaled \$1,305,000 which is in line with expectations. As the 2008-2009 Budget was adopted before the Proposition L vote, there was no budget established for this fiscal year.
- The other taxes category came in under budget by \$42,000 primarily due to lower than expected transit occupancy tax collections which were partially offset by higher than expected refuse franchise tax and gas & electric franchise tax collections.
- The licenses and permits category ended the year \$215,000 below budget due primarily due to the decline in development activity.
- The fines and forfeitures category finished 2008-2009 \$33,000 below budget with lower than expected drug asset seizures, parking violations, and regional auto theft revenues being partially offset by higher than anticipated C.V.C. violations and police impound fees.
- The use of money and property category came in \$18,000 under budget with lower rental revenues not quite being offset by higher investment interest income.
- The revenue from other agencies category ended the year \$325,000 below budget due primarily to lower than expected vehicle license fee and special grant revenues, and no payment from the La Mesa-Spring Valley School District for their School Resource Officer.
- The charges for services category ended the fiscal year \$73,000 above budget due to higher recreation-related charges for services more than offsetting lower than expected development related charges for services.

Current Highlights (Cont'd)

- The other revenue category came in \$4,056,000 over budget primarily due to the unbudgeted \$4 million sale of the property at the northeast corner of Baltimore Drive and El Cajon Boulevard and higher than anticipated State mandate reimbursements.
- Net transfers into the General Fund came in \$190,000 over budget due to better than expected redevelopment tax increment property tax collections and lower transfers to the Equipment Replacement Fund due to the delay of the Geographic Information System (GIS) update.

As Previously Reported

- Beginning fund balance at July 1, 2008 was \$397,000 or 11.4% above estimate due to expenditure controls begun in 2007-2008 to preserve fund balance. Despite these actions, the fund balance going into 2008-2009 was still well below the City Council's target.

APPROPRIATIONS

Through 100% of Year	2008-2009 Budget (1)	YTD Expended (2)	% of Budget Expended
General Fund Appropriations			
General Fund Department Expenditures			
Police	\$13,315,020	12,709,831	95.5%
Fire	7,914,620	7,736,273	97.7%
Public Works	7,427,590	6,733,360	90.7%
Administrative Services	4,336,350	3,927,568	90.6%
Community Development	1,830,560	1,630,789	89.1%
Community Services	2,014,820	1,791,822	88.9%
Subtotal Expenditures	36,838,960	34,529,643	93.7%
Less: Estimated Underexpenditure	(1,095,830)	0	0.0%
Ending Fund Balance	2,132,990	0	0.0%
Total Appropriations	\$37,876,120	\$34,529,643	91.2%
<p>(1) Budget reflects any amendments approved by the City Council through end of quarter reported. (2) Includes expenditures encumbered through end of quarter reported.</p>			

Current Highlights

- The 2008-2009 budget was reduced by a 3% underexpenditure factor to enhance the budgeted ending fund balance and encourage departmental savings. Management actions were taken throughout the fiscal year to preserve fund balance (including elimination of all non-public safety vacancies, curtailment of staff travel and training expenditures, and additional reductions approved by the City Council at a special Council Workshop on January 20). These actions, along with other department savings resulted in an additional \$1,184,000 of savings. Of this amount, \$102,000 is being requested as carryforward budget adjustments to the 2009-2011 Final Budget.
- The General Fund's ending fund balance came in about \$5.3 million above budget. This was primarily due to the unbudgeted \$4 million of land sale proceeds and higher than anticipated expenditure savings. The timing of the land sale is fortunate as it puts the General Fund in a better position to deal with the State of California's 2009-2010 property tax borrowing and redevelopment takeaway.

As Previously Reported

- The initial \$1,000,000 payment from the Redevelopment Agency for the old Police Station site has been reflected in the budgeted ending fund balance. The revenue was received in December, directly increasing our cash balance in the General Fund.

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 Gary Ameling 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.

The comments in the **Resources** and **Appropriations** sections will follow the following format:

“Current Highlights” – Important information being reported for the first time.

“As Previously Reported” – Relevant information that was reported in previous editions.

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.

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.