



2007-2008 Budget Monitoring Report

Quarter Ending December 31, 2007

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

- National economic news was mostly negative during the past quarter. Below is a summary of recent national economic indicators and news.
 - ✓ The Conference Board's Consumer Confidence Index has continued to slide from its recent peak reading of 111.9 in July. This past quarter, the index declined to 95.2 in October and to 87.8 in November, before rising slightly to a preliminary reading of 88.6 in December. Lynn Franco, the Director of the Conference Board's Consumer Research Center, attributed the declines to consumers feeling less comfortable with the current economic situation, expressing a broadening concern about the economy over the next six months, and continuing concerns about the labor market.
 - ✓ The Consumer Price Index rose 0.3% in October, 0.8% in November, and 0.3% in December. The November increase was the largest monthly increase since September 2005. Energy prices rose significantly during the quarter and were largely responsible for the large increase in the overall index in November. During the quarter energy prices rose 1.4% in October, 5.7% in November, and 0.9% in December. The core rate of inflation (excluding the volatile food and energy items) continues to be fairly steady with 0.2% increases in October and December and an increase of 0.3% in November. The Federal Reserve's unofficial target for the core rate of inflation is 2%, on an annualized basis.
 - ✓ Increases in the Municipal Cost Index saw a 0.2% decline in October followed by increases of 0.3% in November and 0.4% in December. Over the past 12 months, the index increased 4.0%. 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.
 - ✓ The Conference Board's Index of Leading Economic Indicators declined each month during the fourth quarter of 2007 and saw a total of eight declines during the calendar year. The index declined 0.7% in October, 0.4% in November, and 0.2% in December finishing the year 1.4% below the December 2006 reading. The recent performance of the index suggests increased risk of an economic downturn and sluggish growth in the months ahead.
 - ✓ The seasonally adjusted U.S. unemployment rate increased from its September reading of 4.7% to 4.8% in October before dropping back to 4.7% in November. The December reading of 5.0% is the first time the rate has been at this level in over two years (November 2005). The December 2006 reading was 4.4%.
 - ✓ The Federal Reserve reduced the federal funds interest rate (the overnight rate the Federal Reserve charges banks) by 0.25% at their October and December meetings. In reaction to recession fears and declines in global stock markets, the Fed reduced the rate by an additional 0.75% on January 22. The federal funds rate is now 3.5%, its lowest point since September 2005. The Fed's next meeting is January 29-30.

ECONOMY (CONT'D)

- California economic news was also largely negative during the quarter. The following is a summary of recent California economic news:
 - ✓ The State unemployment rate (seasonally adjusted) continued its upward trend with an increase to 6.1% in December after holding steady at 5.6% in October and November. The last time the index was at this level was in September 2004. One year ago, in December 2006, the unemployment rate stood at 4.8%. California's rate has now been above the national rate for 17 consecutive months.
 - ✓ 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). Although San Diego's reading continues to be well above the national average, it declined steadily throughout 2007 and no longer ranks in the top 10 of the 52 MSAs. In October, San Diego's online jobs posted per 100 persons in the labor force was 4.27. This was followed by readings of 3.91 in November, and 3.50 in December. This compares to national readings of 2.71, 2.65, and 2.30 postings per 100 people during this same time period.
 - ✓ San Diego County's unadjusted unemployment rate held steady at 4.8% in October and November before rising to 4.9% in December. The December 2007 rate compares unfavorably to the 3.7% rate in December 2006.
 - ✓ La Mesa's unadjusted unemployment rate followed the same trend as the County's holding steady at 4.0% in October and December then rising to 4.1% in December. The December 2006 rate was 3.1%.
 - ✓ The San Diego County Index of Leading Economic Indicators declined 0.9% in September, 1.0% in October, and 1.6% in November (the most recent month available). The index has now declined 19 of the last 20 months. University of San Diego economist Alan Gin believes that the local economy will see "weak job growth and continued pressure on the housing market through at least the first half of 2008."
 - ✓ Experts at the San Diego Business Journal's 2008 Economic Trends event on January 8 expressed that:
 - the number one issue for San Diego businesses is the economy followed by hiring and retention;
 - there is an increasing chance of a national recession (Wall Street's liquidity problem is becoming Main Street's problem);
 - they expect the economy to be very slow in the first half of 2008, picking up in second half;
 - unemployment will rise due to slowdown in housing/construction and related industries (e.g., lending);
 - San Diego's economy should avoid a recession due to strength in life sciences, high tech, health care, tourism, and government sectors;

ECONOMY (CONT'D)

- there are still unknown impacts from the expansion of credit issues (additional delinquencies/foreclosures), fuel costs, and liquidity;
- the U.S. spends the most on health care (\$2 trillion or 16% of GDP today which is expected to rise to \$4 trillion or 20% of GDP by 2015) but ranks 37th in the world in health care outcomes;
- medical costs are expected to continue to increase faster than inflation (7.5% increase in 2008 expected);
- 1% of the population uses 30% of the health care resources while 20% use no health care at all; and
- they expect a 10% decrease in home prices in 2008 due to foreclosure sales.

STATE BUDGET PROCESS

Governor Schwarzenegger released his proposed budget for 2008-2009 on January 10. The proposed budget addresses a State of California structural budget deficit of about \$14.5 billion primarily through cuts and through the issuance of the remaining \$3.3 billion of economic recovery bonds (ERB) that were authorized in 2004. Below are some of the highlights, particularly as they may affect La Mesa:

- The issuance of remaining \$3.3 billion of economic recover bonds will extend the need for the triple flip to remain in place until 2012 or later (as a reminder the triple flip swapped 0.25% of our 1.0% local sales tax for a like amount of property taxes).
- The Governor's proposed budget respects Prop 1A (both 2004 and 2006 versions) protections of local property taxes and Prop 42 transportation funds.
- The Governor has not proposed borrowing property tax monies from local government as allowed under Prop 1A (should the State eventually enact a borrowing, it is limited to 8% of local government property taxes – 8% of La Mesa's property taxes is about \$840,000).
- The proposed budget does not provide any additional Prop 1B funding for local streets and roads beyond what was allocated this fiscal year.
- The proposed budget includes a 10% reduction in payments to counties for Local Detention Facilities. The County would be allowed to make up for this loss by billing out the reduction in booking fees (possible La Mesa impact of about \$15,000 to \$20,000).
- The Governor's proposed budget includes a 10% reduction in the Citizens' Option for Public Safety (COPS) program (La Mesa impact of about \$11,000). La Mesa currently uses these monies to support our annual debt service on the regional communication system.
- The Governor has proposed a delay in local gas tax payments for five months (April to August 2008) with repayment without interest in September 2008 (La Mesa received \$434,000 during this period last year).

STATE BUDGET PROCESS (CONT'D)

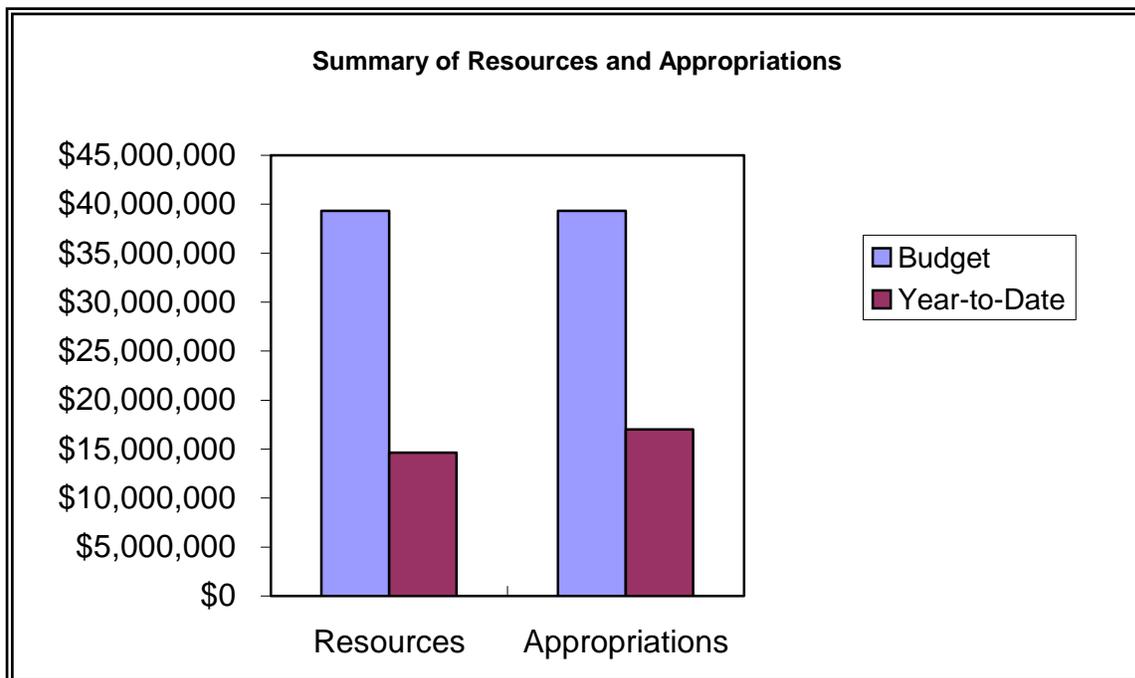
- With the release of his proposed budget, the Governor declared a fiscal emergency under Prop 58 which governs the process for mid-year reductions to be made. The Legislature has 45 days to respond to the Governor's proposals to address the fiscal emergency.
- The Governor will release his "May Revise" budget in mid-May.
- Staff will continue to closely monitor the State budget process and its impacts on La Mesa.

GENERAL FUND SUMMARY

- Beginning fund balance came within 1.1% of budget.
- Through two quarters of 2007-2008, most revenue categories are performing close to budget expectations. Sales tax collections continue to be of concern with collections during the first two quarters coming in below budget. Vehicle license fee collections are also expected to be below budget. See pages 7-8 for more information.
- General Fund department expenditures are running slightly below budget through the first two quarters of the year. Management actions to constrain expenditure growth are being implemented which are expected to yield savings in line with historical norms. See page 9 for more information.
- Based primarily on lower than budgeted revenues, the General Fund's ending fund balance (i.e., reserves) is projected to be about \$665,000 lower than expected.
- 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 2007-2008. For more detailed information refer to the Resources or Appropriations sections of this report.

Summary of General Fund Resources and Appropriations			
Through 50% of Year	2007-2008 Budget (1)	YTD Collected/ Expended (2)	% of Budget Collected/ Expended
Resources			
Beginning Fund Balance	\$6,003,060	\$5,938,942	98.9%
Revenues	30,671,500	8,856,648	28.9%
Plus: Operating Transfers In	5,121,600	994,607	19.4%
Less: Operating Transfers Out	(2,479,800)	(1,159,226)	46.7%
Total Resources	\$39,316,360	\$14,630,971	37.2%
Appropriations			
Department Expenditures	\$35,801,180	\$16,998,661	47.5%
Ending Fund Balance	3,515,180	0	0.0%
Total Appropriations	\$39,316,360	\$16,998,661	43.2%

(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 50% of Year	2007-2008 Budget (1)	YTD Collected	% of Budget Collected
Beginning Fund Balance	\$6,003,060	\$5,938,942	98.9%
Revenues:			
Taxes			
Property	10,122,000	2,408,084	23.8%
Sales	11,627,000	2,903,574	25.0%
Other	3,036,700	678,571	22.3%
Subtotal Taxes	24,785,700	5,990,229	24.2%
Licenses & Permits	1,377,000	755,636	54.9%
Fines, Forfeitures and Penalties	626,000	268,982	43.0%
Use of Money and Property	768,600	375,520	48.9%
Revenue from Other Agencies	928,400	464,440	50.0%
Service Charges	2,082,300	909,149	43.7%
Other Revenue	103,500	92,692	89.6%
Total Revenues	30,671,500	8,856,648	28.9%
Plus: Interfund Transfers In	5,121,600	994,607	19.4%
Less: Interfund Transfers Out	(2,479,800)	(1,159,226)	46.7%
Total Resources	\$39,316,360	\$14,630,971	37.2%

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

Current Highlights

- 2007-2008 beginning fund balance came within 1.1% of budget (\$64,000 under budget).
- Sales tax collections through the first half of the year, representing transactions that took place in the second and third quarter of calendar year 2007, came in lower than expected. Year end collections are estimated to come in about \$500,000 below budget. Staff will continue to closely monitor sales tax collections as this is our single largest revenue source.

Current Highlights (Cont'd)

- Motor vehicle license fee (VLF) collections are coming in below budget due to off the top distributions for annexations and higher DMV fees being spread over a smaller VLF base. Collections are estimated to come in about \$100,000 below budget.

As Previously Reported

- Monitoring sales tax collections is complicated by three factors:
 - ✓ Tax distributions from the State Board of Equalization (BOE) represent taxes collected by businesses in prior periods. Each quarter, the BOE makes distributions based on the amount collected for the same quarter in the prior year. The BOE then includes a “true up” payment in the following month. Therefore, the most accurate snapshots of how sales tax collections are doing can be seen in our month end numbers for March, June, September, and December.
 - ✓ Because La Mesa uses the accrual basis of accounting, the taxes received by the City in July and August are accrued back to June so that they are shown in the fiscal year in which they were earned. Therefore, the amount of collections shown in the year-to-date collected column in the table in this section is smaller than one would ordinarily expect (note that other revenues are also accrued including property taxes, transient occupancy tax, and franchise fees).
 - ✓ Beginning in 2004-2005, the State implemented the “Triple Flip” which reduces sales tax distributions by one quarter in exchange for a like amount of property taxes which are distributed in January and May rather than monthly. These property taxes in lieu of sales taxes will be shown as sales taxes in our financial reports.

APPROPRIATIONS

General Fund Appropriations			
Through 50% of Year	2007-2008 Budget (1)	YTD Expended (2)	% of Budget Expended
General Fund Department Expenditures			
Police	\$13,002,360	6,368,364	49.0%
Fire	7,693,860	3,852,777	50.1%
Public Works	7,119,610	3,386,844	47.6%
Administrative Services	4,441,860	1,918,061	43.2%
Community Development	1,732,960	637,772	36.8%
Community Services	1,810,530	834,843	46.1%
Subtotal Expenditures	35,801,180	16,998,661	47.5%
Ending Fund Balance	3,515,180	0	0.0%
Total Appropriations	\$39,316,360	\$16,998,661	43.2%
(1) Budget reflects any amendments approved by the City Council through end of quarter reported.			
(2) Includes expenditures encumbered through end of quarter reported.			

Current Highlights

- Vacancies through the first half of the year were somewhat below normal levels resulting in lower budget savings. Second half savings and the expenditure savings measures (e.g., holding selected positions vacant and the elimination of one management position following a staff resignation) are expected to result in overall expenditure savings of about 3%.
- Overtime expenditures associated with the Witch and Harris fires are expected to be almost entirely reimbursed by FEMA and the State.
- Other department expenditures are in line with expectations through the second quarter.

As Previously Reported

- None.

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.