



2013-2014 Budget Monitoring Report

Quarter Ending December 31, 2013

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 Sarah Waller-Bullock at (619) 667-1122 if you have any questions, comments, or suggestions.

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EXECUTIVE SUMMARY

The economy continued to grow at an extremely slow pace as most national economic indicators were slightly positive over the quarter ending December 31, 2013. The consensus among most economic forecasts remains cautious but positive and the economic recovery continues to struggle.

NATIONAL ECONOMIC INDICATORS AND FORECASTS

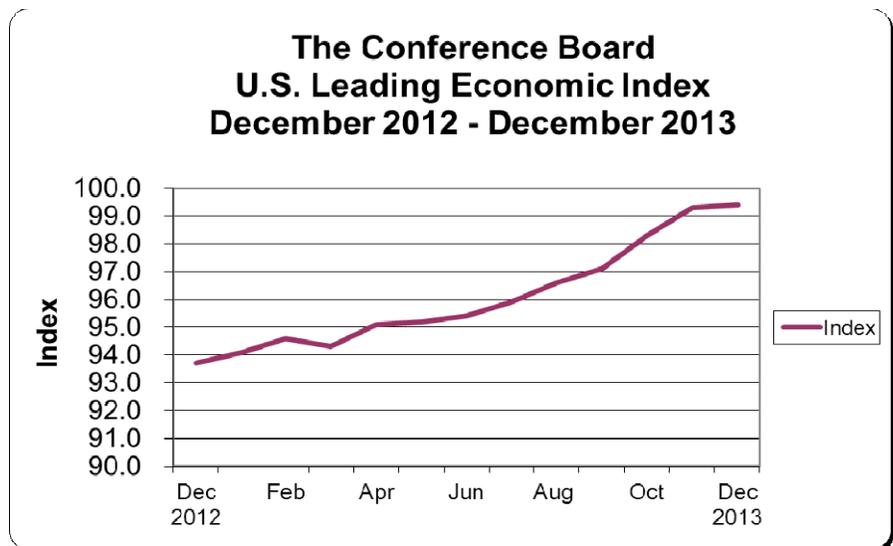
U.S. Leading Economic Index

With the exception of a slight dip in March, the U.S. Leading Economic Index (LEI) has remained either positive or unchanged since September 2012, with October increasing 0.1 percent, November increasing a full 1 percent, and December increasing 0.1 percent. Over the previous six months, the LEI has increased 3.4 percent.

According to economists at the Conference Board, “despite month-to-month volatility in the final quarter of 2013, the U.S. LEI continues to point to gradually strengthening economic conditions through early 2014....The LEI was lifted by its financial components in December, but consumer expectations for business conditions and residential construction continue to pose risks.” Conference Board economists continue to be cautiously optimistic about improvements in the economy over the next few months. “This latest report suggests steady growth this spring, but some uncertainties remain.”

**The Conference Board
 U.S. Leading Economic Index
 (2004 = 100)**

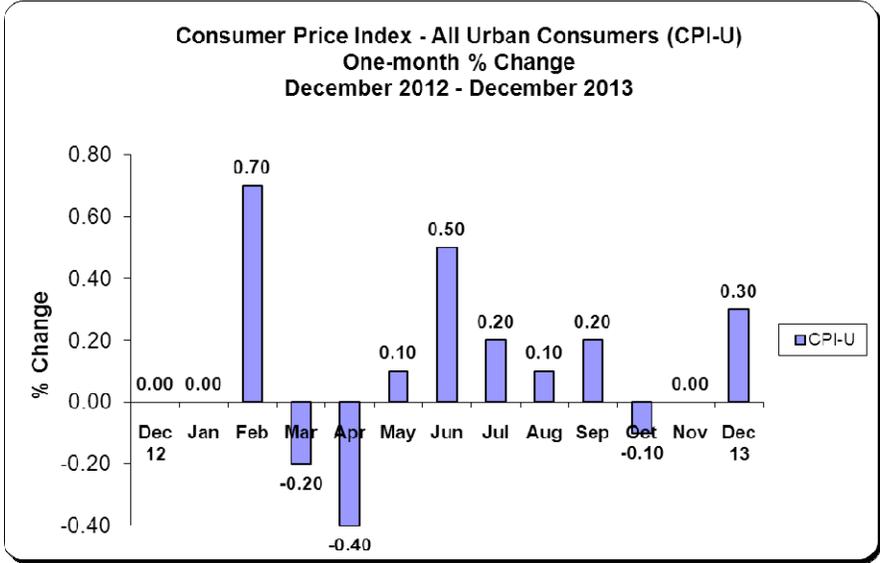
	Index	% Change
Dec 2012	93.7	0.30%
Jan	94.1	0.40%
Feb	94.6	0.50%
Mar	94.3	-0.30%
Apr	95.1	0.80%
May	95.2	0.10%
Jun	95.4	0.00%
Jul	95.9	0.50%
Aug	96.6	0.70%
Sep	97.1	1.00%
Oct	98.3	0.10%
Nov	99.3	1.00%
Dec 2013	99.4	0.10%



Consumer Price Index

The CPI for all items was mixed over the three months during the current quarter. Over the past 12 months, the all items index increased 1.5 percent.

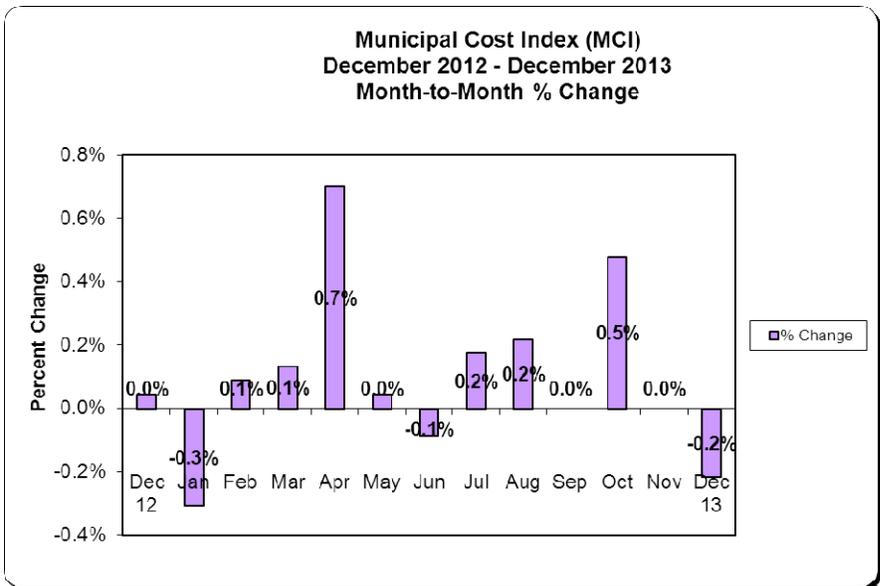
The index decreased slightly by 0.1 percent in October, was unchanged in November, and then rose sharply by 0.3 percent in December. The main driver of the increase in December was the energy index, with gasoline increasing 3.1 percent and an overall increase of 2.1 percent. The food index was rose slightly by 0.1 percent.



The all items index increased 1.5 percent over the past 12 months, an increase over the 12-month changes seen in both October and November.

Municipal Cost Index

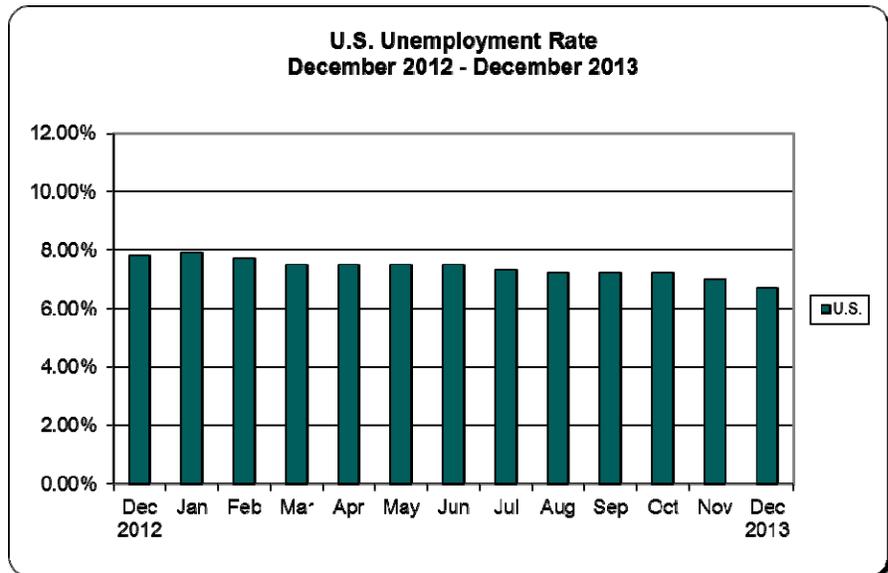
The Municipal Cost Index (MCI) increased sharply by 0.5 percent in October, then remained unchanged in November and decreased by 0.2 percent in December. Overall, the MCI has increased 1.3 percent in the past twelve months, a decrease over the previous 12-month changes. The MCI reflects the impact of 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

After remaining relatively steady over the past quarter, the U.S. unemployment rate decreased to 7.0 percent in November and ended the year at 6.7 percent. This is the sixteenth month since 2012 that the unemployment rate has been below 8 percent. These rates remain the lowest since the beginning of 2009 and the first time the rate has fell to below 7 percent in four years. Offsetting the positive implications of the unemployment rate are the



numbers of long-term unemployed, and those persons who worked part time for economic reasons, those who were marginally attached to the labor force and those who were considered discouraged workers. These classifications were again essential unchanged and remain at historically high levels. The small gains that were seen were in retail trade and wholesale trade.

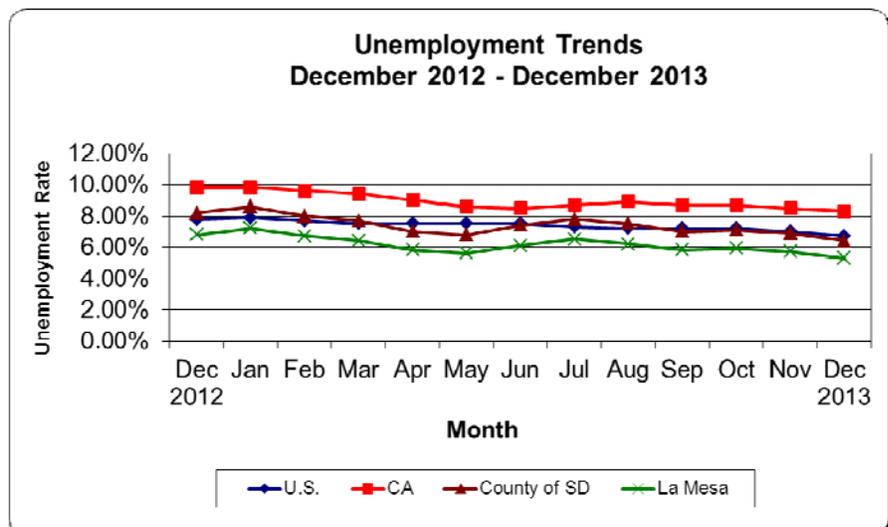
Federal Funds Rate (Discount Rate)

As it has since December 2008, the Federal Reserve continues to maintain the Federal Funds Rate at 0.00 to 0.25 percent and with almost no expectation of changing in the near future. Despite inflationary pressures in gasoline and other commodities, the Fed feels that “economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period.” A recent survey of economists by Bloomberg News revealed little expectation that the Fed would increase the Federal Funds Rate beyond its current levels well into 2014.

STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS

State and Local Unemployment

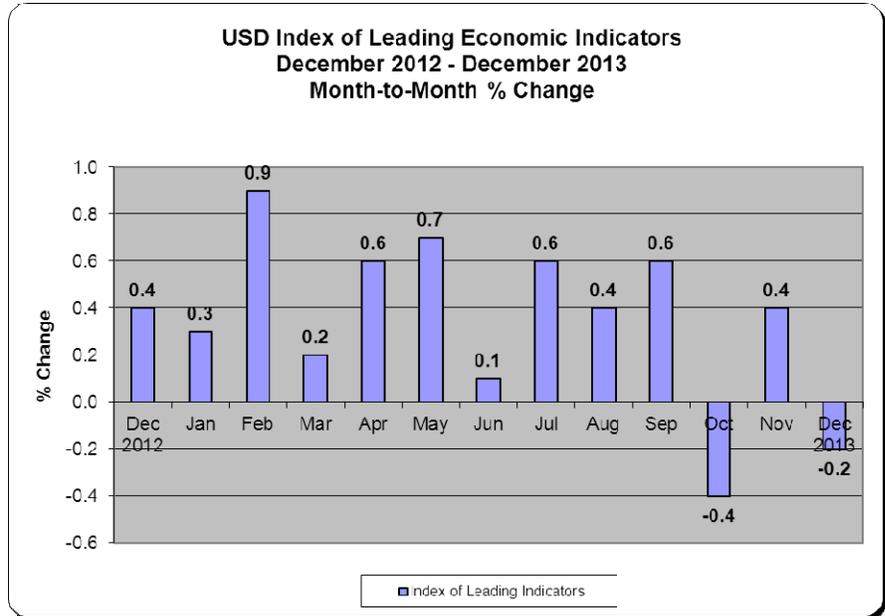
Keeping with the national trend, the unemployment rates for the State, County of San Diego and La Mesa all remain at levels below those not seen since 2009. State unemployment rate declined steadily since October’s rate at 8.7 percent with November at 8.5 percent and December ending at 8.3 percent. This 8.3 percent is the lowest rate since 2009. The



rates for the County of San Diego and the City of La Mesa also dropped to lows not seen in several years, ending December at 6.4 percent and 5.3 percent respectively.

Local Leading Economic Indicators

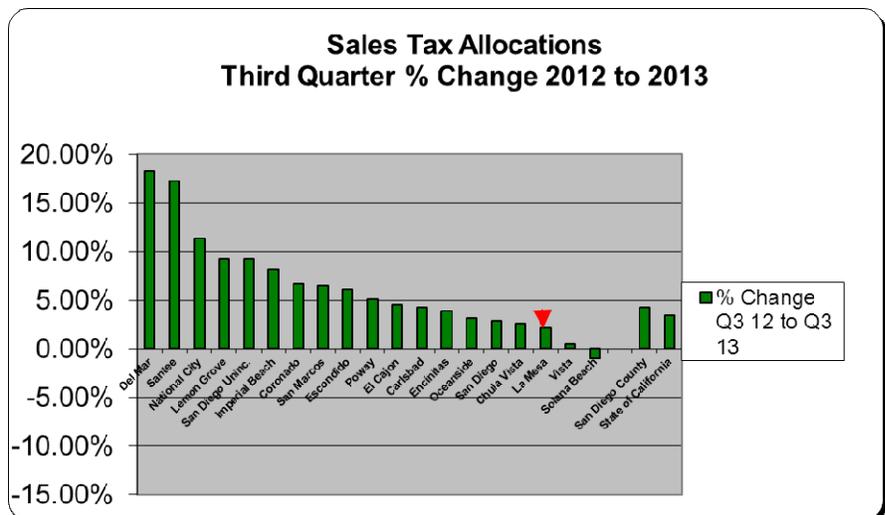
The San Diego County Index of Leading Economic Indicators continued its positive trend in September with an increase of 0.6 percent before showing mixed activity in the last quarter. October's decrease of 0.4 percent was offset by November's increase of 0.4 percent, with the year ending at a decrease of 0.2 percent. Overall, the USD LEI has increased 3.98 percent over the past year. Increases in building permits in both November and December offset decreases in initial claims for unemployment and declines in help wanted advertising.



According to Alan Gin, despite the USD Index falling for two of the last three months, the outlook for the local economy remains positive. "The forecast for 2014 is for another 25,000 jobs to be added in San Diego County, which would be enough to push the local unemployment rate down to under six percent. Continued solid growth is expected in construction, leisure and hospitality, and health care."

Local Sales Tax Allocations

Sales tax revenues received during the third quarter (July through September calendar year 2013) continues to show positive growth, although at continued lower levels than experienced in other parts of the county. La Mesa's sales tax revenues were up 2.11 percent when compared to the same quarter in 2012. As has been consistent with previous quarters, when comparing with other cities in the county, La Mesa's increases are not as dramatic, but are consistently steadily and incrementally positive over the previous year



STATE BUDGET

The State’s budget issues have for the moment quieted down as revenues have appeared to recover and the Governor’s cost cutting measures are implemented. These measures were enacted for the benefit of the State and not without tremendous costs to local governments. The single biggest development in the State’s budget actions to date that has a direct impact on the City’s budget situation has been, and continues to be the dissolution of redevelopment. The City continues to deal with the effects of the dissolution and the Department of Finance’s efforts to dismantle funding for the remaining obligations of the former redevelopment agency.

Upcoming issues on the horizon are the State’s suspension of POST Reimbursements for police officer training and the CalPERS review of actuarial assumptions (mortality and discount rate). For now, the situation with the State seems to be somewhat quiet. Despite the Governor’s recent claims that the State’s budget woes are at an end, though, there are still unresolved budgetary issues, namely K-12 funding and repayment of interfund borrowing that may still threaten local revenues. Staff continues to monitor the State’s actions closely.

GENERAL FUND SUMMARY

GENERAL FUND REVENUES

	General Fund Resources				
	Through 50% of Fiscal Year	Current Fiscal Year		Prior Year Comparison	
		2013-2014 Budget ¹	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (audited)
Revenues:					
Taxes					
Property	\$ 10,748,800	\$ 2,274,605	21.2%	\$ 2,296,256	22.4%
Sales	10,897,500	2,785,500	25.6%	2,788,591	25.8%
Proposition L	7,579,300	2,662,694	35.1%	2,605,427	35.5%
Other	2,938,700	752,331	25.6%	736,178	25.6%
Subtotal taxes	32,164,300	8,475,130	26.3%	8,426,452	26.9%
Licenses & permits	1,133,300	971,704	85.7%	495,098	45.2%
Fines, forfeitures & penalties	536,800	191,270	35.6%	194,092	33.7%
Use of money and property	748,400	341,162	45.6%	369,706	48.5%
Revenue from other agencies	400,900	493,721	123.2%	87,514	23.0%
Service charges	1,822,300	1,025,640	56.3%	1,100,988	65.8%
Other revenue	78,800	71,603	90.9%	372,195	43.8%
Total revenues	36,884,800	11,570,231	31.4%	11,046,045	33.0%
Other financing sources:					
Interfund transfers in	2,666,300	536,677	20.1%	1,222,008	36.4%
Interfund transfers out	(1,484,300)	(1,077,900)	72.6%	(436,687)	37.7%
Total other financing sources	1,182,000	(541,223)		785,321	
Plus: Fund Balance at June 1	10,576,280	14,495,701	137.1%	11,519,459	100.5%
Total resources	\$ 48,643,080	\$ 25,524,709	52.5%	\$ 23,350,825	55.9%

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

- ✓ General Fund resources received through the second quarter of 2013-2014 are at expected levels and in line with budget when compared to the same time period last fiscal year. The final Beginning Fund Balance was higher than was originally budgeted due to unanticipated one-time revenues and higher than anticipated revenues as a result of redevelopment.
- ✓ Property tax revenues received through the second quarter are slightly below the same time period last year, but are meeting budgetary expectations. Because the majority of property taxes are received in January and April, the first half of the year's revenues are historically not quite 50 percent of the total revenue.
- ✓ The base sales tax and Proposition L sales tax revenues for the 3rd Quarter Tax Year (received through September 2013) are coming in at budgeted amounts and at approximately the same levels as the same tax period during the previous 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. Revenues received as a result of the Proposition L sales tax are meeting budget expectations through June.
- ✓ There are several General Fund revenues that are expected to exceed budgetary expectations. Licenses and Permits, particularly plan check fees, have already exceeded the budget amounts by approximately \$200,000. In addition, reimbursements received by the Fire Department for both the JPA expenses and strike team overtime are greater than anticipated.
- ✓ Most other General Fund revenues are meeting budgetary expectations and consistent with the previous year's revenues during the same time period. Fines, Forfeitures & Penalties and Use of money and property revenues are down slightly both compared to budget and the previous fiscal year. Service Charges continue to exceed budgetary expectations and are due primarily an increase in development activity. Increases in Revenues from Other Agencies is due to the receipt of one-time revenues: AB109 funds from the State of California; and refund of VLF administrative fees.
- ✓ Unrestricted Proposition L proceeds are being utilized 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 will be used to help face future financial challenges, most notably the City's depleted General Fund reserve levels.

GENERAL FUND EXPENDITURES

General Fund Expenditures			
Through 50% of Fiscal Year	2013-2014 Budget¹	YTD Expended²	% of Budget
General Fund Department Expenditures			
Police	\$ 14,608,290	\$ 6,995,254	47.9%
Fire	8,571,690	4,081,852	47.6%
Public Works	7,558,140	2,961,556	39.2%
Administrative Services	4,645,670	2,290,836	49.3%
Community Development	1,485,920	662,416	44.6%
Community Services	1,661,900	746,743	44.9%
Total General Fund Expenditures	<u>\$ 38,531,610</u>	<u>\$ 17,738,658</u>	46.0%

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

- ✓ Department expenditures are within budgetary expectations with 50 percent of the fiscal year completed. The two largest departments, Police and Fire, are each at approximately 48 percent expended with 50 percent of the fiscal year completed. Public Works is currently at 39 percent of budget due to encumbering operating funds early in the year for expending throughout the year. All remaining departments end the quarter at below budget. While it is still early in the fiscal year, the General Fund expenditure budget is expected to be below budgetary amounts.

	Actuals					Est.
	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14
Ending Reserves	7,502,150	7,575,113	11,111,675	11,519,459	14,495,701	14,495,701
Reserves as % of Operating Expenditures	21.8%	22.4%	31.9%	29.4%	36.0%	37.6%
Reserves:						
Property Sale (Police Station)	1,000,000	1,600,000	2,300,000	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	4,000,000
Proposition L Revenues	1,304,970	1,975,113	4,811,675	4,469,459	7,445,701	7,445,701
Reserves from Operations	1,197,180	-	-	-	-	-
Total Ending General Fund Reserves	7,502,150	7,575,113	11,111,675	11,519,459	14,495,701	14,495,701

- ✓ City staff is in the process of estimating General Fund expenditures and revenues in preparation for the 6-year forecast and strategic plan to be presented to the Council at the March workshop. Based on the preliminary estimates, it appears that revenues are being received at slightly higher than budgeted amounts, closing the structural budget gap that was anticipated last June. In addition, the ending fund balance at June 30, 2013 was higher than anticipated. Unanticipated one-time revenues were received late in the fiscal year and actual expenditures remained well below budget.

- ✓ 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 the 15 percent Rainy Day Reserve target, but still be well below the additional Cash Flow Reserve target of 25 percent.

CONCLUSIONS

The recovery from this recession continues to be exceptionally slow. Economic projections continue to remain positive, with most indicators pointing to continued recovery through the end of 2013 and into 2014. The City's core revenues (property tax, sales tax, and Proposition L sales tax) have stopped their downward trends and are recovering. Sales tax revenues and Proposition L sales taxes, in particular, are slowly but steadily increasing consistent to budgetary projections. Proposition L sales taxes are providing much needed revenues to fill the structural budget deficits caused by lower revenues. Assessed valuations appear to be stabilizing as foreclosures slow and housing prices remain steady. These positive signs, however, are tempered by the dissolution of redevelopment and the resulting negative impact on the General Fund. One-time revenues are helping the General Fund Reserves, but sustained increases in ongoing revenues is necessary for long-term recovery.

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 Sarah Waller-Bullock 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.

Reserves - Commentary on estimated ending fund balance and its relationship to reserve targets. Included is a graph displaying historical ending fund balance related to reserve targets and a table showing historical monthly cash balances.

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.