



City of La Mesa, California

2005-2006 Budget Monitoring Report

Quarter Ending December 31, 2005

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 largely positive during the past quarter. Below is a summary of recent national economic indicators and news.
 - ✓ The Conference Board's Consumer Confidence Index declined in October to 85.2 (lowest reading since 2003). The decline was attributed to this summer's hurricanes and gas price increases. November and December saw a reversal in the Index with readings of 98.3 in November and 103.6 in December driven by consumers feeling better about the economy, declines in gas prices, and job growth.
 - ✓ The Consumer Price Index fell this quarter with a 0.2% increase in September followed by declines of 0.6% in November (the steepest decline in 56 years) and 0.1% in December. The volatile energy sector was again primarily responsible for the swing in the index. The core rate of inflation was up a modest 0.2% each month this quarter while energy costs were down 0.2% in October, 8.0% in November, and 2.2% in December.
 - ✓ The Conference Board's Index of Leading Economic Indicators rose each month this quarter, reversing a trend of three straight declines in the prior quarter. The increases were 0.9% in October, 0.5% in November, and 0.1% in December. These increases offset the steep decline in September which reflected the economic impact of the Gulf hurricanes. Seven of the ten indicators that make up the Index rose in October and November and six rose in December.
 - ✓ The U.S. unemployment rate has remained relatively stable the past quarter with the index declining 0.2% in October to 4.9%, followed by readings of 5.0% in November and 4.9% in December (seasonally adjusted). The December 2004 unemployment rate was 5.4%. Non-farm payroll employment rose 25,000 jobs in October; 305,000 in November; and 108,000 in December.
 - ✓ The Federal Reserve increased the federal funds interest rate (the overnight rate the Federal Reserve charges banks) a 13th consecutive time in December. The rate now stands at 4.25% (up from a low of 1%). Ben Bernanke is scheduled to succeed Alan Greenspan as Federal Reserve chairman in February. Fed watchers now expect that increases in interest rates will soon come to an end. The Federal Reserve next meets on January 31.

ECONOMY (CONT'D)

- The following is a summary of recent California economic news:
 - ✓ The State unemployment rate (seasonally adjusted) ended this quarter where it ended last quarter, at 5.1%. In October the rate rose to 5.2% and it rose again in November to 5.3%. These increases were followed by a decline in December back to 5.1%. The unemployment rate in December 2004 stood at 6.0%.
 - ✓ San Diego County's unadjusted unemployment rate rose to 4.4% in October but declined to 4.3% in November and to 3.6% in December. While seasonal declines in the rate are typical during the holiday shopping season, the December rate shows a decline of 0.5% from the December 2004 rate of 4.1%.
 - ✓ La Mesa's unadjusted unemployment rate followed the same trend with a small increase to 3.6% in October followed by declines to 3.5% in November and 3.0% in December. Again, seasonal declines are typical but we have seen a real decline from the December 2004 rate of 3.3%.
 - ✓ The San Diego County Index of Leading Economic Indicators was down 0.1% in October (the last month reported) following a steep 0.5% decrease in September. The largest contributor to the declines were a drop in building permits. Although the index has now declined for three months in a row, the trend over the past six months has been fairly stable, leading University of San Diego economist Alan Gin to project slow but still positive growth in 2006.
 - ✓ Economists at the 2006 San Diego County Economic Roundtable (held on January 13) project on average that in 2006 the County will grow by 42,300 people, add 21,700 jobs, see inflation of 3.4%, and see housing prices increase by 2.5%. Concerns raised include housing affordability, the impact of high oil prices, attracting and retaining qualified employees, and the impact of the City of San Diego's fiscal crisis.

STATE BUDGET PROCESS

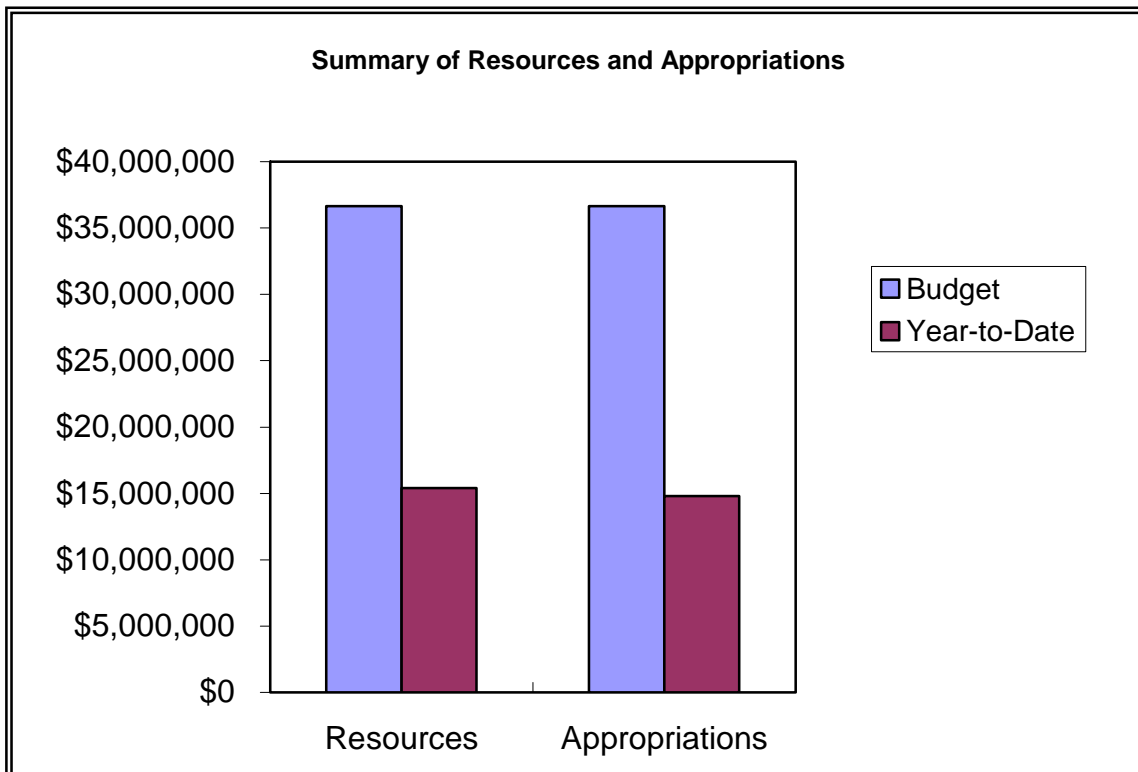
- Governor Schwarzenegger submitted his proposed 2006-2007 Budget on January 10. The budget protects local revenues (as passed by the voters in Proposition 1A), funds mandate reimbursement, funds Proposition 42 transportation improvements, continues the \$100 million funding for local COPS funding, and provides some funds for booking fee relief.
- Legislative analyst Elizabeth Hill concluded that the Governor's proposed budget actually increases the State's structural budget deficit and misses an opportunity to close the gap between revenues and expenditures.
- 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 0.2% of budget.
- Through two quarters of 2005-2006, we are beginning to see some variances from budget in revenue collections. Variations in sales tax and property tax in lieu of VLF (vehicle license fee) are expected to cancel each other. Property and other taxes are running slightly over budget and fines and forfeitures are running below budget due to Police vacancies. Service charges are running ahead of budget due to development activity. See pages 6-7 for more information.
- General Fund department expenditures are running slightly below budget largely due to vacancies within the Police and Fire Departments. Year end savings are expected to be about \$400,000 (see page 8).
- As a result of the above variances, the General Fund's ending fund balance (i.e., reserves) is expected to be about \$195,000 over budget.
- 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 2005-2006. 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	2005-2006 Budget (1)	YTD Collected/ Expended (2)	% of Budget Collected/ Expended
Resources			
Beginning Fund Balance	\$5,943,920	\$5,956,931	100.2%
Revenues	29,413,890	9,247,392	31.4%
Plus: Operating Transfers In	3,003,000	1,008,859	33.6%
Less: Operating Transfers Out	(1,710,000)	(804,505)	47.0%
Total Resources	\$36,650,810	\$15,408,677	42.0%
Appropriations			
Department Expenditures	\$31,572,250	\$14,793,121	46.9%
Ending Fund Balance	5,078,560	0	0.0%
Total Appropriations	\$36,650,810	\$14,793,121	40.4%

(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	2005-2006 Budget (1)	YTD Collected	% of Budget Collected
Beginning Fund Balance	\$5,943,920	\$5,956,931	100.2%
Revenues:			
Taxes			
Sales	12,377,000	3,392,453	27.4%
Property	7,496,000	1,708,808	22.8%
Other	2,819,800	759,649	26.9%
Subtotal Taxes	22,692,800	5,860,910	25.8%
Licenses & Permits	1,999,100	559,475	28.0%
Vehicle License Fees	1,431,000	1,081,972	75.6%
Service Charges	1,259,200	848,246	67.4%
Use of Money and Property	716,100	376,476	52.6%
Revenue from Other Agencies	696,790	230,309	33.1%
Fines, Forfeitures and Penalties	545,900	241,526	44.2%
Other Revenue	73,000	48,478	66.4%
Total Revenues	29,413,890	9,247,392	31.4%
Plus: Interfund Transfers In	3,003,000	1,008,859	33.6%
Less: Interfund Transfers Out	(1,710,000)	(804,505)	47.0%
Total Resources	\$36,650,810	\$15,408,677	42.0%

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

Current Highlights

- Sales tax collections continue to track close to budget but “Triple Flip” property taxes in lieu of sales taxes are expected to be \$360,000 below our budget estimate. This estimate includes a negative \$423,000 “true up” for 2004-2005 based on the triple flip only being in place for three quarters of the year while our in lieu payments were based on 10 and a half months. This negative adjustment is a one time event.
- Property taxes are running slightly ahead of our budget estimate and we expect to end the year about \$50,000 over budget.
- Other taxes are expected to exceed budget by about \$45,000, primarily due to higher than anticipated gas and electric franchise fees as a result of winter gas surcharges.

Current Highlights (Cont'd)

- Licenses and permits collections are below expectations due to delays in several large development projects that were anticipated to get their building permits this year. The timing of these projects is very difficult to predict and monies added to the expenditure side of the budget to backfill staff with outside help will not be spent unless the permits are issued.
- Fines and forfeitures are running below budget as a direct result of position vacancies within the Police Department. We expect to undercollect the budget estimate by about \$40,000.
- The service charges category is expected to exceed budget by about \$100,000 largely due to greater than expected planning and zoning fee collections.

As Previously Reported

- 2005-2006 beginning fund balance came within 0.2% of budget (\$13,000 over budget).
- Property taxes in lieu of VLF payments are expected to exceed budget by about \$410,000 based on new State Controller's Office estimates, which include a positive \$190,000 true up for 2004-2005. This true up is an ongoing amount that will now grow by our assessed value growth rate.
- 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 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	2005-2006 Budget (1)	YTD Expended (2)	% of Budget Expended
General Fund Department Expenditures			
Police	\$11,488,040	5,402,348	47.0%
Fire	7,233,070	3,688,937	51.0%
Public Works	5,953,720	2,732,134	45.9%
Administrative Services	3,753,470	1,564,267	41.7%
Community Services	1,617,750	729,333	45.1%
Community Development	1,526,200	676,102	44.3%
Subtotal Expenditures	31,572,250	14,793,121	46.9%
Ending Fund Balance	5,078,560	0	0.0%
Total Appropriations	\$36,650,810	\$14,793,121	40.4%
<small>(1) Budget reflects any amendments approved by the City Council through end of quarter reported. (2) Includes expenditures encumbered through end of quarter reported.</small>			

Current Highlights

- Salary and benefit expenditures are below budget due to vacancies in Police and Fire but savings are largely offset by higher than budgeted overtime expenditures. Expect year end savings of about \$400,000.
- Other expenditure categories are running close to budget.

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.