



2007-2008 Budget Monitoring Report

Quarter Ending March 31, 2008

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 continued to be mostly negative during the past quarter. Below is a summary of recent national economic indicators and news.
 - ✓ The Conference Board's Consumer Confidence Index declined each month during the quarter continuing to slide from its recent peak in July 2007. This past quarter, the index declined to 87.3 in January, 76.4 in February, and to 65.9 in March. This is the lowest reading since a reading of 61.4 in March 2003 (a five year low). Lynn Franco, the Director of the Conference Board's Consumer Research Center, said the recent declines imply that "consumers' confidence in the state of the economy continues to fade...". The forward looking expectations component of the index is at a 35 year low (since the oil embargo and Watergate scandal were the big stories in December 1973).
 - ✓ The Consumer Price Index rose 0.4% in January, was unchanged in February, and advanced 0.3% in March. The volatile energy index rose 0.7% in January, declined 0.5% in February, and increased 1.9% in March (accounting for most of the overall March increase). Food prices have been steadily advancing, up 4.5% for the 12 month period ending in March. The core rate of inflation however (which excludes the volatile food and energy items), continues to be fairly steady with a 0.2% increase in March following no change in the index in February, and an increase of 0.3% in January. The Federal Reserve's unofficial target for the core rate of inflation is 2%, on an annualized basis.
 - ✓ The Municipal Cost Index rose 0.9% in January, followed by a decline of 0.1% in February, and an increase of 0.5% in March. Over the past 12 months, the index increased 5.0%. 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 saw a slight increase in March following declines in the preceding five months. The index declined 0.1% in January and 0.3% in February, before rising 0.1% in March. During the six months ending in March, the index has declined at a 3.3% annual rate with widespread weakness among the 10 components that make up the index.
 - ✓ The seasonally adjusted U.S. unemployment rate declined from its December reading of 5.0% to 4.9% in January and 4.8% in February, before increasing to 5.1% in March. The March 2007 reading was 4.4%.
 - ✓ The Federal Reserve reduced the federal funds interest rate (the overnight rate the Federal Reserve charges banks) by 0.75% on January 22 (an unusual adjustment outside its normal meeting schedule) and by 0.50% and 0.75% at its January and March meetings. An additional 0.25% reduction was approved in April. The federal funds rate is now at 2.0%, its lowest point since November 2004. Most economists expect the Fed to now pause, perhaps leaving rates unchanged through the rest of 2008. The Fed's next meeting is June 24-25.

ECONOMY (CONT'D)

- California economic news also continues to be largely negative. The following is a summary of recent California economic news:
 - ✓ The State unemployment rate (seasonally adjusted) followed a similar trend to the national unemployment rate. The rate declined from 5.9% in December to 5.9% in January and 5.7% in February, before increasing to 6.1% in March. One year ago, in March 2007, the unemployment rate stood at 5.0%. California's rate has now been above the national rate for 20 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). San Diego's reading continues to be well above the national average, but no longer ranks in the top 10 of the 52 MSAs. In January, San Diego's online jobs posted per 100 persons in the labor force was 3.24. This was followed by readings of 3.47 in February, and 3.34 in March. This compares to national readings of 2.20, 2.58, and 2.45 postings per 100 people during this same time period.
 - ✓ San Diego County's unadjusted unemployment rate increased from a December reading of 5.0% to 5.2% in January. In February, the rate declined to 5.0%, but then increased to 5.3% in March. The March 2007 rate was 4.2%.
 - ✓ La Mesa's unadjusted unemployment rate followed the same trend as the County's increasing from a 4.1% rate in December to 4.3% in January, then declining to 4.2% in February, and increasing to 4.4% in March. The March 2007 rate was 3.5%.
 - ✓ The San Diego County Index of Leading Economic Indicators declined 1.6% in January, 1.4% in February, and 1.4% in March. The index has now declined 23 of the last 24 months. University of San Diego economist Alan Gin believes that the local economy will see "continued weakness for the rest of 2008, with job growth flat or even negative."

STATE BUDGET PROCESS

- Governor Schwarzenegger released his proposed budget for 2008-2009 on January 10. The proposed budget was based on 10% across the board cuts to solve an estimated structural budget deficit of \$14.5 billion. Below are some of the highlights, particularly as they may affect La Mesa:
 - ✓ 10% reduction in payments to counties for Local Detention Facilities would allow the County to make up for this loss through booking fees (La Mesa impact of about \$16,000 per year).
 - ✓ 10% reduction in the Citizens' Option for Public Safety (COPS) program would cost La Mesa about \$11,000 per year. La Mesa currently uses these monies to support annual debt service payments on our Regional Communications System.
 - ✓ Respects Prop 1A protections (both 2004 and 2006 versions) of local property taxes and Prop 42 transportation funds.

STATE BUDGET PROCESS (CONT'D)

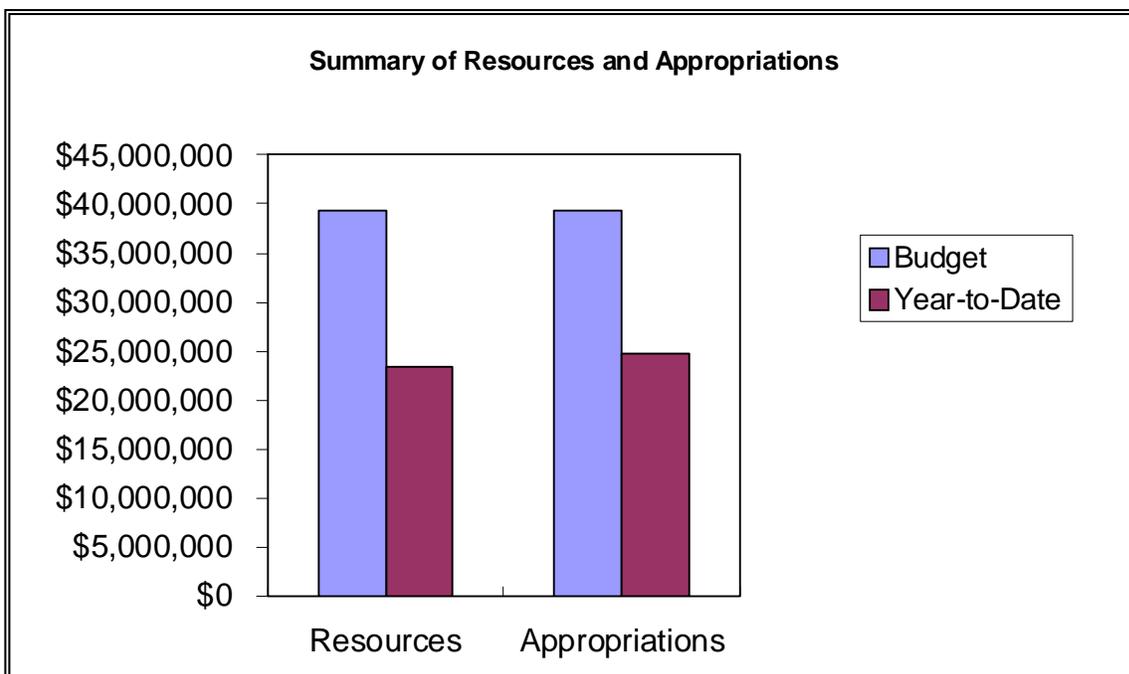
- ✓ Does not propose borrowing property tax monies from local government as allowed under Prop 1A (should the State eventually enact a borrowing, it is limited to 8% of local government property taxes – 8% of La Mesa's property taxes is about \$840,000).
- ✓ No Prop 1B funding for local streets and roads beyond what was allocated for 2007-2008.
- ✓ Includes issuance of the remaining \$3.3 billion of economic recovery bonds which would 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 State has already enacted the Governor's proposed 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 – we anticipate about \$4,000 in lost investment interest earnings).
- ✓ The State has already eliminated the practice of paying estimated mandate claims to local governments with true up the following year. Payments based on actual cost will now be made in the second year after the costs are incurred (one-time loss of about \$40,000).
- State Legislative Analyst Elizabeth Hill released her analysis of the proposed budget on February 20. Her estimate of the shortfall is \$16 million. She prepared a comprehensive budget proposal for the Legislature to consider which includes several additional items of concern to La Mesa:
 - ✓ Permanent shift of our share of Proposition 172 monies to counties to provide relief for a proposed realignment of parole programs from the State to counties (impact to La Mesa of about \$270,000 per year).
 - ✓ Elimination of the Citizens Option for Public Safety (COPS) program (impact to La Mesa of about \$108,000 per year – the General Fund would have to make up for the loss of these monies which are used to support debt service payments on our Regional Communications System).
 - ✓ Elimination of the Local Detention Facility Subvention to counties. Without this subvention, counties would most likely resume charging booking fees (possible impact to La Mesa of about \$160,000 per year).
 - ✓ Elimination of a number of sales tax exemptions that would result in an unknown increase in our sales tax collections.
- The Governor will release his "May Revise" on May 15.
- The debate on the budget is expected to be contentious and the solution will likely involve some combination of significant cuts and revenue enhancement measures.
- 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 three quarters of 2007-2008, we are seeing variances in several revenue categories. Sales tax collections continue to be of primary concern with collections during the first three quarters coming in below budget. The other taxes; licenses & permits; fines, forfeitures and penalties; revenue from other agencies; and service charges categories are also expected to be below budget. In total, resources are expected to be about \$1.2 million below budget. See pages 7-8 for more information.
- General Fund department expenditures are running below budget through the first three quarters of the year. Management actions to constrain expenditure growth have been implemented which are expected to yield savings in line with historical norms. Total expenditures at year end are expected to be about \$1.0 million below budget. 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 \$200,000 below budget and about \$1.3 million lower than projected when the 2007-2009 Budget was adopted last September. Based on this trend, General Fund reserves would go negative sometime in early fiscal year 2009-2010 without significant expenditure cuts or increased revenues. In its six year Financial Forecast presented to the Council at the March 18 Council Strategic Planning Workshop, staff estimated that the ongoing structural budget deficit is about \$4 million per year. Expenditure reductions of this magnitude (about 10%) would result in significant service level reductions. Staff will continue to keep the Council and the community informed as we work together to solve this structural deficit.
- 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 75% of Year	2007-2008 Budget (1)	YTD Collected/ Expended (2)	% of Budget Collected/ Expended
Resources			
Beginning Fund Balance	\$6,030,060	\$5,965,942	98.9%
Revenues	30,671,500	17,595,779	57.4%
Plus: Operating Transfers In	5,129,760	1,531,157	29.8%
Less: Operating Transfers Out	(2,487,300)	(1,743,501)	70.1%
Total Resources	<u>\$39,344,020</u>	<u>\$23,349,377</u>	59.3%
Appropriations			
Department Expenditures	\$35,828,840	\$24,673,038	68.9%
Ending Fund Balance	3,515,180	0	0.0%
Total Appropriations	<u>\$39,344,020</u>	<u>\$24,673,038</u>	62.7%

(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 75% of Year	2007-2008 Budget (1)	YTD Collected	% of Budget Collected
Beginning Fund Balance	\$6,030,060	\$5,965,942	98.9%
Revenues:			
Taxes			
Property	10,122,000	5,566,544	55.0%
Sales	11,627,000	6,574,385	56.5%
Other	3,036,700	1,199,815	39.5%
Subtotal Taxes	24,785,700	13,340,744	53.8%
Licenses & Permits	1,377,000	995,133	72.3%
Fines, Forfeitures and Penalties	626,000	454,207	72.6%
Use of Money and Property	768,600	566,603	73.7%
Revenue from Other Agencies	928,400	608,716	65.6%
Service Charges	2,082,300	1,499,973	72.0%
Other Revenue	103,500	130,403	126.0%
Total Revenues	30,671,500	17,595,779	57.4%
Plus: Interfund Transfers In	5,129,760	1,531,157	29.8%
Less: Interfund Transfers Out	(2,487,300)	(1,743,501)	70.1%
Total Resources	\$39,344,020	\$23,349,377	59.3%

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

Current Highlights

- Sales tax collections through the first three quarters of the year, representing transactions that took place from the second through fourth quarter of calendar year 2007, came in below budget expectations. Sales tax collections from the holiday shopping season were up 0.5% as compared to the same quarter in 2006. Our year-end projection continues to be 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)

- The other taxes category is now expected to be about \$140,000 below budget at year end primarily due to significantly lower property transfer tax collections and lower gas and electric franchise tax collections.

As Previously Reported

- 2007-2008 beginning fund balance came within 1.1% of budget (\$64,000 under budget).
- 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.
- Licenses and permits collections for 2007-2008 are expected to finish \$140,000 below budget at year end due to the slowdown in development activity.
- Fines and forfeitures are expected to finish the year about \$30,000 below budget.
- The revenue from other agencies category is expected to be about \$140,000 below budget primarily due to lower than expected vehicle license fees due to off the top distributions for annexations and higher DMV fees being spread over a smaller VLF base, and lower than expected payments from Helix High School for the school resource officer (SRO) position due to an injury.
- The service charges category is expected to be \$165,000 below budget at year end due primarily to lower development related charges for services.
- The other revenue category is expected to be \$25,000 over budget at year end due to higher than anticipated State mandate reimbursements.

APPROPRIATIONS

General Fund Appropriations			
Through 75% of Year	2007-2008 Budget (1)	YTD Expended (2)	% of Budget Expended
General Fund Department Expenditures			
Police	\$13,021,860	9,212,801	70.7%
Fire	7,702,020	5,577,527	72.4%
Public Works	7,119,610	4,843,744	68.0%
Administrative Services	4,441,860	2,823,539	63.6%
Community Development	1,732,960	1,007,257	58.1%
Community Services	1,810,530	1,208,170	66.7%
Subtotal Expenditures	35,828,840	24,673,038	68.9%
Ending Fund Balance	3,515,180	0	0.0%
Total Appropriations	\$39,344,020	\$24,673,038	62.7%
(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

- Due to vacancies and expenditure savings measures (e.g., holding selected positions vacant and the elimination of one management position following a staff resignation), savings in personnel accounts are expected to result in about \$640,000 of savings.

As Previously Reported

- Overtime expenditures associated with the Witch and Harris fires are expected to be almost entirely reimbursed by FEMA and the State.
- Personal expenses are estimated to be about \$100,000 below budget at year end primarily due to lower than budgeted travel and training expenditures.
- The materials, supplies, and services category is estimated to be about \$300,000 below budget at year end.

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.