



# **2018-2019 Budget Monitoring Report**

**Quarter Ending March 31, 2019**

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

This Budget Monitoring Report details and analyzes economic indicators and forecasts based on certain assumptions and published projections through the quarter ending March 31, 2019. The national economy continued the positive growth experienced over the past year with most forecasts continuing to project the same level of growth through the end of 2019.

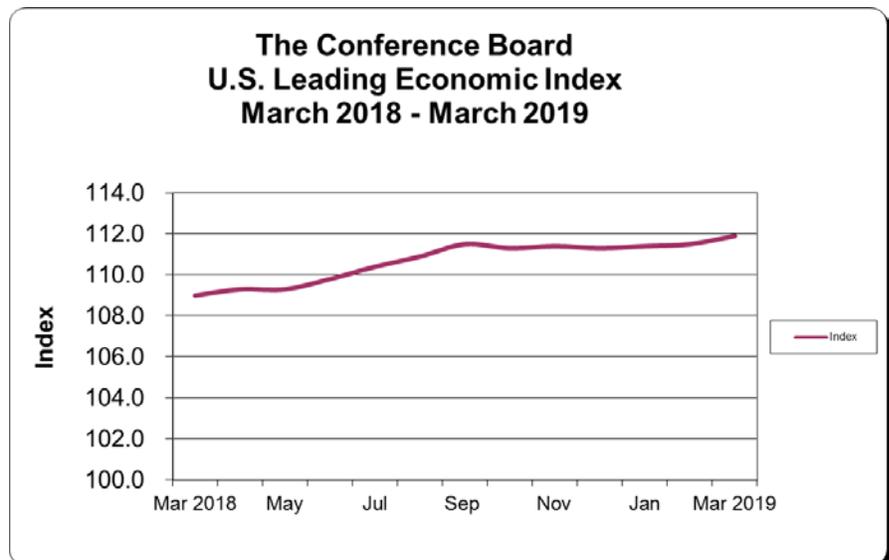
### NATIONAL ECONOMIC INDICATORS AND FORECASTS

#### *U.S. Leading Economic Index*

The Conference Board Leading Economic Index (LEI) for the U.S. increased 0.4 percent in March, following a 0.1 percent increase in February and no change in December. "The US LEI picked up in March with labor markets, consumers' outlook, and financial conditions making the largest contributions," said Ataman Ozyildirim, Director of Economic Research at The Conference Board. "Despite the relatively large gain in March, the trend in the US LEI continues to moderate, suggesting that growth in the US economy is likely to decelerate toward its long term potential of about 2 percent by year end."

**The Conference Board  
 U.S. Leading Economic Index  
 (2016 = 100)**

	Index	% Change
Mar 2018	109.0	0.30%
Apr	109.3	0.40%
May	109.3	0.00%
Jun	109.8	0.50%
Jul	110.4	0.60%
Aug	110.9	0.50%
Sep	111.5	0.50%
Oct	111.3	-0.20%
Nov	111.4	0.10%
Dec	111.3	-0.10%
Jan	111.4	0.00%
Feb	111.5	0.10%
Mar 2019	111.9	0.40%



### Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.4 percent in March on a seasonally adjusted basis after increasing 0.2 percent in February and remaining unchanged in January. Over the last 12 months, the all items index increased 1.9 percent before seasonal adjustment.

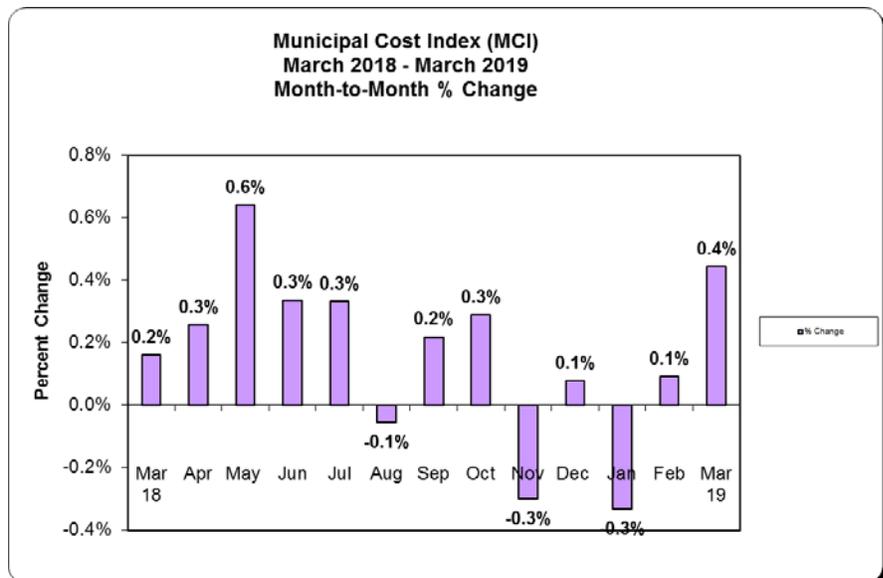
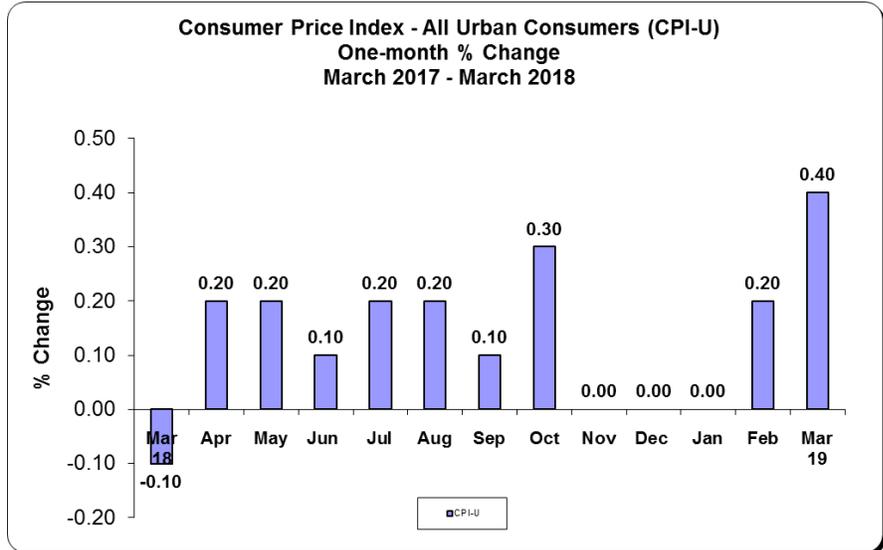
The energy index increased 3.5 percent in March, accounting for roughly 60 percent of the total all items increase. The food index also increased 0.3 percent in the same time period.

The index for all items less food and energy increased 0.1 percent in March, the same increase as in February.

The all items index increased 1.9 percent for the 12 months ending March 2019, slightly higher than the 1.5 percent increase for the 12 months ending February 2019. The index for all items less food and energy rose 2.0 percent over the last 12 months, while the food index rose 2.1 percent over the past year and the energy index declined 0.4 percent over the past year.

### Municipal Cost Index

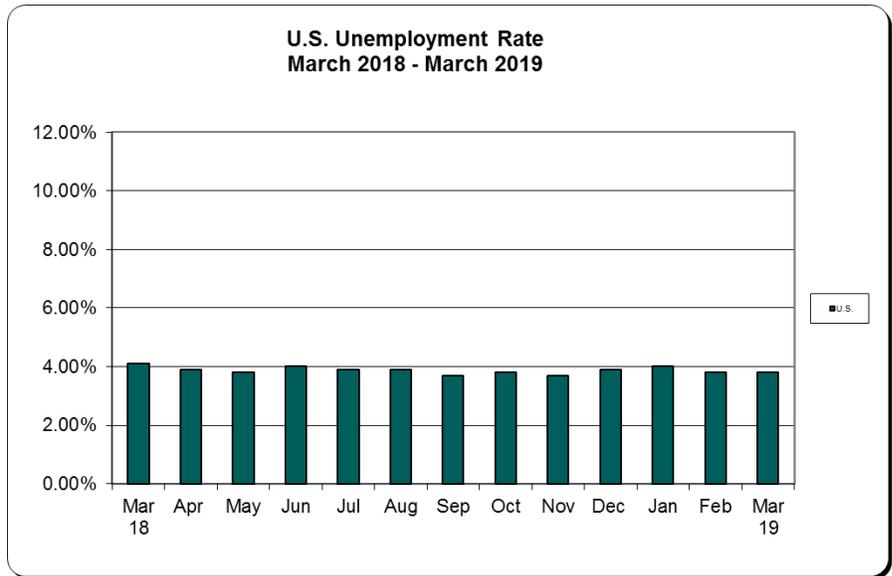
The Municipal Cost Index (MCI) increased by 0.4 percent in March after increasing 0.1 percent in February and decreasing 0.3 percent in January. Overall, the MCI has increased 2.0 percent over the past twelve months, the lowest rate since 2017. The MCI reflects the impact of the costs of labor, materials 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.



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**U.S. Unemployment Rate**

The national unemployment rate increased slightly from 3.9 percent in December to 4.0 percent in January before decreasing to 3.8 percent in February where it remained unchanged in March. The unemployment rate has remained well below 6 percent since September 2014 and has been at or below 4.0 percent since March 2018. Job gains in March occurred in healthcare and in professional and technical services. The number of long-term unemployed persons was essentially unchanged at 1.3 million for the month, accounting for approximately 20.5 percent of the unemployed. Over the past twelve months, the unemployment rate and the number of unemployed persons were down by 0.3 percent.



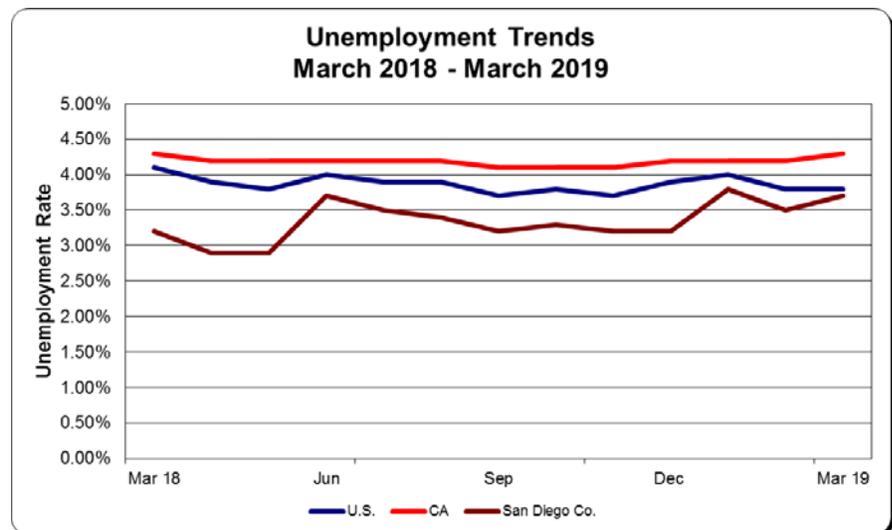
**Federal Funds Rate (Discount Rate)**

Information received since the Federal Open Market Committee (FOMC) met in January indicates that while the labor market remains strong, the growth of economic activity has slowed slightly in the recent months. Payroll employment was little changed and on a 12-month basis, overall inflation has slowed when compared to the same time period last year. The FOMC decided to maintain the target range for the federal funds rate at 2.25 to 2.5 percent. In their statement released in March, the FOMC, “sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee’s symmetric 2 percent objective as the most likely outcomes.”

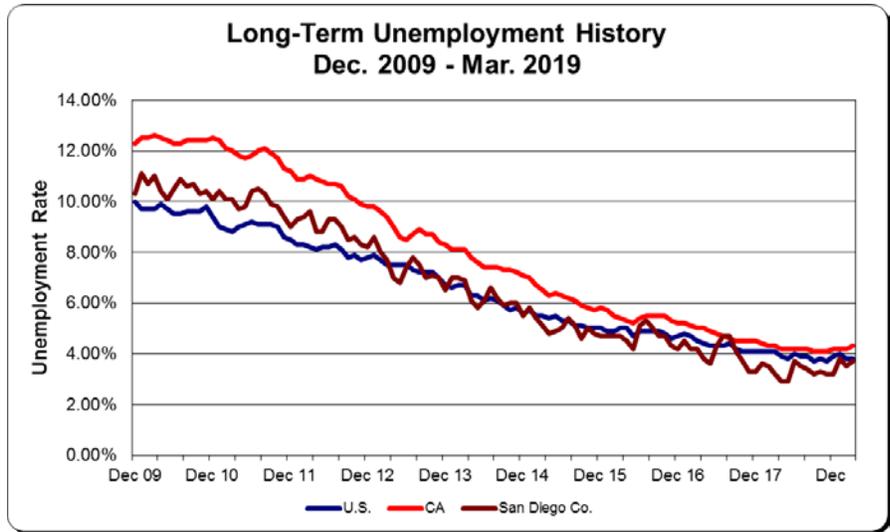
**STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS**

**State and Local Unemployment**

The state unemployment rate remained unchanged at 4.2 percent during January and February before increasing slightly to end the quarter at 4.3 percent in March. The County of San Diego and City of La Mesa unemployment rates each increased in January to 3.8 percent before decreasing in February to 3.5 percent. In March, the County unemployment rate increased slightly to 3.7 percent while the



City of La Mesa rate remained at 3.5 percent. According to the Spring 2019 San Diego Regional Outlook published by Beacon Economics, the job market in the San Diego region is looking very favorable with growth seen in the educational services sector and the region's growing tech hub. "San Diego County's Educational Services sector experienced the most growth in percentage terms, expanding by 9.7%, or 2,900 jobs, from January 2018 to January 2019. The Accommodation and Food sector and the Professional Scientific and Technical Services sector expanded the most in absolute terms, adding 5,300 and 4,000 payrolls, respectively. With tech companies such as Apple locating more and more employees in San Diego, the region can also expect continued growth in the local technology industry as well as in the Leisure and Hospitality sector as demand for the latter moves in tandem with outright growth in the former."



### Local Economic Outlook

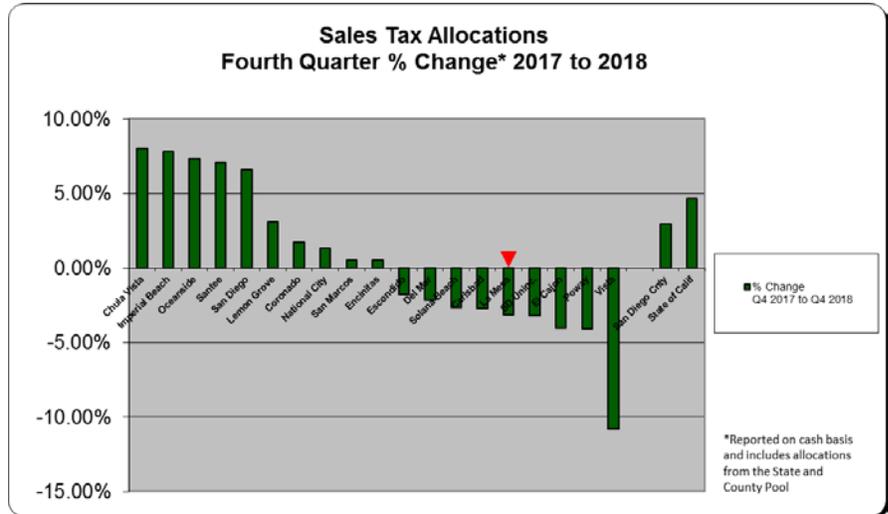
The Beacon Economics Spring forecast for 2019 predicts continued slower growth when compared to previous years but that this slowing is due more to normal business cycles than any indication of a possible recession. According to Chris Thornberg, "while there have been weaker-than-normal numbers in some economic data, they are in line with the normal ebb and flow of growth. Moreover, fundamental indicators of economic health such as the consumer savings rate, wage growth, and debt levels all look good."

Looking at the state and local level, "California's economy is increasingly hampered by the state's housing shortage and a greater sense of urgency has developed around the issue as reflected by more aggressive action from Governor Gavin Newsom and the State Legislature." Locally the median home price in San Diego County decreased from the third to the fourth quarter 2018, in part because of normal seasonality as well as the interest rates peaking in November. However, mortgage rates have since decreased and home sales are expected to stabilize or improve in the next few months as the market ramps up during peak season. Meanwhile, home prices in San Diego County will continue to advance.

Beacon Economics expects the median price of an existing single-family home in San Diego to increase in 2019, but at a slower pace compared to the last few years.

*Local Sales Tax Allocations*

Fourth quarter 2018 sales tax revenues on a cash basis continue to lag slightly behind revenues received during the same time period. Weak holiday shopping results and the closure of a specialty retailer (Babys R Us) all contributed to a decrease in general consumer goods. Revenue from new car sales continue to lag slightly from prior year's levels.



La Mesa is also lagging behind the County and the State as both showed positive growth in the 4<sup>th</sup> quarter. The County of San Diego increased 2.9 percent over the 4<sup>th</sup> Quarter 2017 and the State of California increased 4.7 percent over the same time period.

**STATE BUDGET**

In January, the newly elected Governor Newsom unveiled his first California Budget for the upcoming 2019-2020 fiscal year. His first big move was to increase funding for housing and homelessness as a way to fulfill one of his campaign promises. The proposed budget includes a \$144 billion General Fund (4 percent increase over former Governor Brown's 2019-2020 budget) and a total \$209 billion budget including special funds (\$8 billion more than Gov. Brown's final budget). Governor Newsom stressed that the increases focused on one-time expenditures including lump sum payments for pension costs and grants for special programs, all while continuing to build reserves. Also included in the proposed budget are one-time funding allocations for cities and counties to help communities plan for more housing. City staff is watching this housing funding issue very closely as housing is a very high priority for the City Council.

The current 2018-2019 State Budget included the first full year of funding under the Road Repair and Accountability Act of 2017 (SB 1), revenues intended to provide stable, long-term funding for both state and local transportation infrastructure priorities. On November 6, 2018, voters did not approve the citizen initiative Proposition 6 that, if passed, would have repealed the transportation funding. As a result, La Mesa's allocation of Road Maintenance and Repair funds (RMRA) are expected to exceed \$1 million in 2019-2020.

Staff continues to monitor the State's budget situation and the upcoming May Revise and will be reviewing any actions by the legislature that might significantly impact the budget.

**GENERAL FUND SUMMARY**

*General Fund Resources*

General Fund revenues received through the third quarter of fiscal year 2018-2019 are in line

with budget expectations and roughly about the same levels when compared to the same time period last fiscal year. The General Fund's major revenue sources, property tax and sales tax (both base sales & use tax and Proposition L transaction tax) are not received at regular intervals throughout the fiscal year, but rather towards the middle and end of the fiscal year. For this reason, revenue streams received from these sources through the first three quarters of the fiscal year will not equate to 75 percent of the total annual revenues.

General Fund Resources	Current Fiscal Year			Prior Year Comparison	
	2018-2019 Budget <sup>1</sup>	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (audited)	% of Budget Collected
Through 75% of Fiscal Year					
<b>Revenues:</b>					
<b>Taxes</b>					
Property Tax	\$ 13,743,880	\$ 7,632,882	55.5%	\$ 7,559,103	58.0%
Former Tax Increment (RDA)	340,400	185,617	54.5%	181,742	54.6%
Sales	12,987,000	7,996,206	61.6%	7,946,366	60.9%
Proposition L	8,591,000	5,493,090	63.9%	5,388,486	63.0%
Other	3,361,700	1,620,165	48.2%	1,505,223	45.9%
<b>Subtotal taxes</b>	<b>39,023,980</b>	<b>22,927,960</b>	<b>58.8%</b>	<b>22,580,919</b>	<b>59.1%</b>
Licenses & permits	1,600,200	1,466,714	91.7%	1,138,632	69.9%
Fines, forfeitures & penalties	610,100	412,549	67.6%	479,076	84.7%
Use of money and property	1,290,900	694,512	53.8%	1,196,517	92.9%
Revenue from other agencies	1,003,000	671,971	67.0%	824,874	91.7%
Service charges	2,353,500	1,507,627	64.1%	1,638,714	66.5%
Other revenue	122,900	238,146	193.8%	208,886	193.6%
<b>Total revenues</b>	<b>46,004,580</b>	<b>27,919,479</b>	<b>60.7%</b>	<b>28,067,617</b>	<b>62.1%</b>
<b>Other financing sources:</b>					
Interfund transfers in	2,803,200	1,662,252	59.3%	1,742,909	62.5%
Interfund transfers out	(1,420,630)	(482,550)	34.0%	(1,088,550)	66.6%
<b>Total other financing sources</b>	<b>1,382,570</b>	<b>1,179,702</b>		<b>654,359</b>	
<b>Plus: Fund Balance at July 1</b>	<b>30,470,121</b>	<b>31,578,785</b>	<b>103.6%</b>	<b>29,696,208</b>	<b>100.0%</b>
<b>Total resources</b>	<b>\$ 77,857,271</b>	<b>\$ 60,677,966</b>	<b>77.9%</b>	<b>\$ 58,418,184</b>	<b>130.3%</b>

<sup>1</sup> Budget reflects any amendments approved by the City Council through the end of the quarter

- ✓ General fund revenues are for the most part meeting budgetary expectations and at roughly the same levels compared to the same period last fiscal year.
- ✓ Property tax revenues received through the third quarter are in line with the same time period last fiscal year and within budgetary expectations. Because the majority of property tax revenues are received in the latter half of the fiscal year, the revenues through the third quarter are historically less than 75 percent.
- ✓ The CDTFA payment issues have largely been resolved with most delayed and missing allocations received by the City through March 2019. Overall sales tax revenues when compared to the year to date amounts through the same period last fiscal year are meeting budgetary expectations and at about the same levels compared to the prior year.

- ✓ Proposition L sale tax revenues are at about the same levels when compared to both the same period last fiscal year and budgetary expectations. 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.
- ✓ Most other General Fund revenues, including other taxes and fines, forfeitures & penalties are being received within budgetary expectations and at similar levels to those received in the same period of the previous year. Property Transfer taxes and Licenses and Permits are exceeding both budgetary expectations and when compared to the same period last fiscal year. Revenues from Use of Money and Property are lower than the previous year due a delay in the Westmont/Briercrest annual rent as a result of a delay in the completion date. Revenue from other agencies is slightly lower than the same period of the previous year due to decreases in the Heartland JPA reimbursement. Service charges are slightly below the levels received in the same period of the previous year due primarily to the timing of the paramedic services reimbursements from year to year.
- ✓ Unrestricted Proposition L proceeds are being utilized to 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 are being used to preserve General Fund reserve levels.

*General Fund Appropriations*

<b>General Fund Appropriations</b>			
<b>Through 75% of Fiscal Year</b>	<b>2018-2019 Budget<sup>1</sup></b>	<b>YTD Expended<sup>2</sup></b>	<b>% of Budget Expended</b>
<b>General Fund Department Expenditures</b>			
Police	\$ 19,885,855	\$ 13,924,379	70.0%
Fire	11,435,840	8,193,968	71.7%
Public Works	9,169,770	6,855,549	74.8%
General Government	6,710,530	4,309,767	64.2%
Community Development	2,491,985	1,622,748	65.1%
Community Services	1,772,300	1,119,540	63.2%
Subtotal Expenditures	<u>51,466,280</u>	<u>36,025,950</u>	70.0%
Ending Unrestricted Fund Balance	26,390,991	24,652,016	
<b>Total Appropriations</b>	<b><u>\$ 77,857,271</u></b>	<b><u>\$ 60,677,966</u></b>	<b>77.9%</b>

<sup>1</sup> Budget reflects any amendments approved by the City Council through the end of the quarter  
<sup>2</sup> Includes expenditures encumbered and carried forward to the new fiscal year

- ✓ Most departments are at or slightly below budgetary expectations through 75 percent of the fiscal year and are on track to be at or slightly below budget at the end of the fiscal year.

*General Fund Reserves*

The Budget Monitoring Report for December 31, 2018 projected the ending General Fund Reserves for fiscal year ending June 30, 2019 at \$24,587,935. This projected ending fund balance reflects the actual ending General Fund reserves at June 30, 2018 of \$31,578,785 as well as the current Mid-Biennium Budget appropriations, the additional appropriations for salary and benefit increases approved by the City Council for all the bargaining groups, and the additional contributions from available reserves to the Section 115 Retirement Trust Fund.

	Actuals			FY 18-19	
	FY 15-16	FY 16-17	FY 17-18	Mid-Biennium Budget	Revised Ending Reserves
<b>Available Reserves at June 30,</b>	<b>29,395,841</b>	<b>29,696,208</b>	<b>31,578,785</b>	<b>27,584,491</b>	<b>24,587,935</b>
<b>Reserves as % of Operating Expenditures</b>	<b>63.1%</b>	<b>60.7%</b>	<b>65.3%</b>	<b>54.9%</b>	<b>47.9%</b>
<b>Source of Reserves:</b>					
Property Sale (Police Station)	3,050,000	3,050,000	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
Proposition L Revenues	8,298,939	8,406,483	8,916,466	8,591,000	8,591,000
Reserves from Operations	14,046,901	14,239,724	15,612,320	11,943,491	8,946,935
<b>Total Ending General Fund Reserves</b>	<b>29,395,841</b>	<b>29,696,208</b>	<b>31,578,785</b>	<b>27,584,491</b>	<b>24,587,935</b>

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 both the 15 percent Rainy Day Reserve target and the additional Cash Flow Reserve target of 25 percent.

**CONCLUSIONS**

Most economic forecasts predict continued economic growth through the end of 2019 as the economy continues to grow, inflation remains within expected limits, and the unemployment rate remains at historic lows. The City's core revenues (property tax, sales tax, and Proposition L sales tax) continue to remain stable albeit somewhat flat in the current economy. Proposition L sales taxes are providing much needed revenues to fill the structural budget deficits caused by lower revenues. Overall General Fund expenditures continue to be within budgetary expectations. Finally, projected General Fund reserves at June 30 2019 remain consistent with the Council's reserve policies.

## 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.

**Reserves** - Commentary on estimated ending fund balance and its relationship to reserve targets. Included is a table displaying historical ending fund balance related to reserve targets.

### **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.