



2021-2022 Budget Monitoring Report

Quarter Ending December 31, 2021

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 Tammi Royales 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 December 31, 2021. As a result of the COVID-19 public health emergency declared in early March 2020, the national economy took an immediate decline in most areas. As of the end of the quarter, most economic factors were on the rise but some outlooks still remain uncertain of the long term effects.

NATIONAL ECONOMIC INDICATORS AND FORECASTS

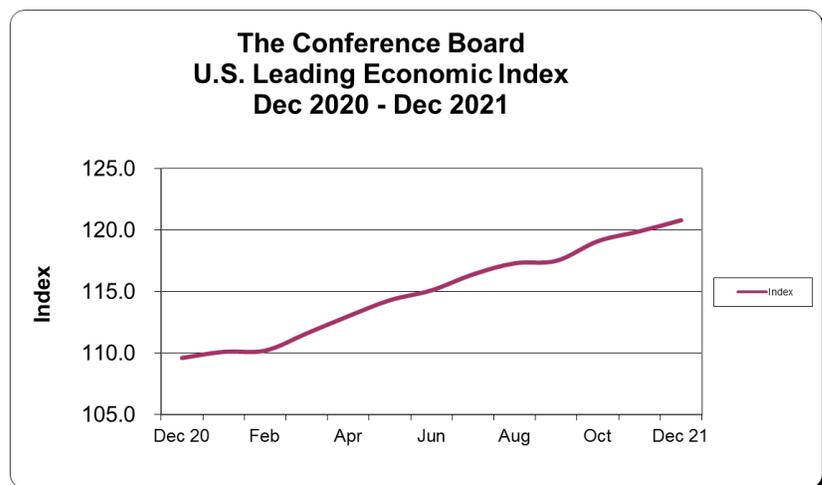
U.S. Leading Economic Index

The Conference Board Leading Economic Index® (LEI) for the U.S. increased by 0.8 percent in December to 120.8, following a 0.7 percent increase in November and a 0.7 percent increase in October.

“The U.S. LEI ended 2021 on a rising trajectory, suggesting the economy will continue to expand well into the spring,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “For the first quarter, headwinds from the Omicron variant, labor shortages, and inflationary pressures—as well as the Federal Reserve’s expected interest rate hikes—may moderate economic growth. The Conference Board forecasts GDP growth for Q1 2022 to slow to a relatively healthy 2.2 percent (annualized). Still, for all of 2022, we forecast the US economy will expand by a robust 3.5 percent—well above the prepandemic trend growth.”

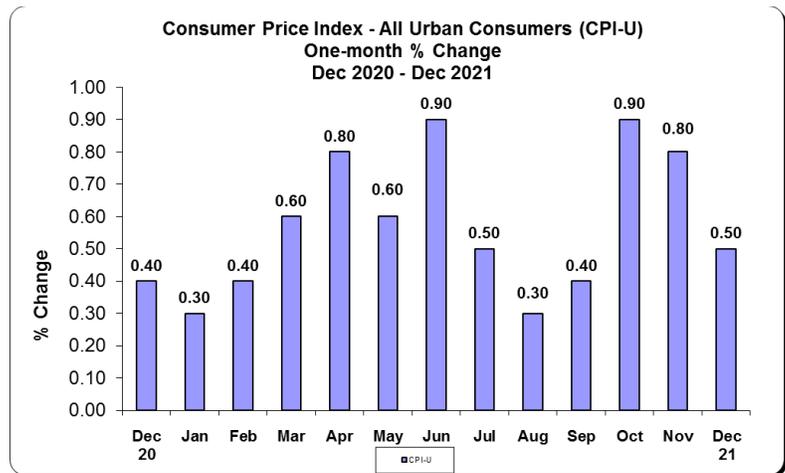
**The Conference Board
 U.S. Leading Economic Index
 (2016 = 100)**

	Index	% Change
Dec 20	109.6	0.40%
Jan	110.1	0.50%
Feb	110.2	0.10%
Mar	111.6	1.30%
Apr	113.0	1.30%
May	114.3	1.20%
Jun	115.1	0.70%
Jul	116.4	1.10%
Aug	117.3	0.80%
Sep	117.5	0.20%
Oct	119.1	0.70%
Nov	119.9	0.70%
Dec 21	120.8	0.80%



Consumer Price Index

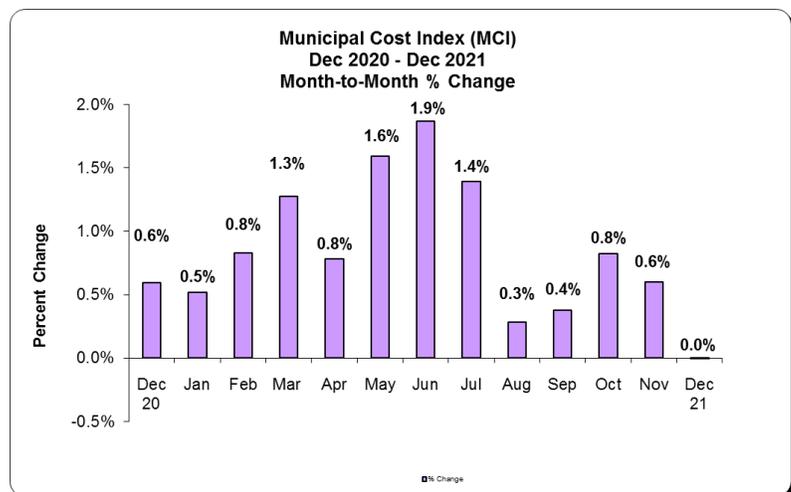
The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.5 percent in December on a seasonally adjusted basis after rising 0.8 percent in November, the U.S. Bureau of Labor Statistics reported in January. Over the last 12 months, the all items index increased 7.0 percent before seasonal adjustment. Increases in the indexes for shelter and for used cars and trucks were the largest contributors to the seasonally adjusted all items increase. The food index also contributed, although it increased less than in recent months, rising 0.5 percent in December. The energy index declined in December, ending a long series of increases; it fell 0.4 percent as the indexes for gasoline and natural gas both decreased.



The index for all items less food and energy rose 0.6 percent in December following a 0.5 percent increase in November. This was the sixth time in the last 9 months it has increased at least 0.5 percent. Along with the indexes for shelter and for used cars and trucks, the indexes for household furnishings and operations, apparel, new vehicles, and medical care all increased in December. As in November, the indexes for motor vehicle insurance and recreation were among the few to decline over the month.

Municipal Cost Index

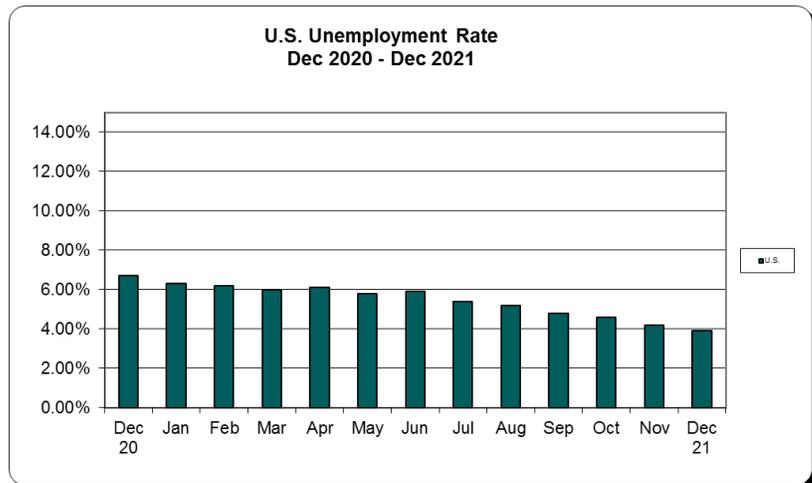
The Municipal Cost Index (MCI) remained unchanged in December after increasing 0.6 percent in November and 0.8 percent in October. Overall, the MCI has increased 10.8 percent over the past twelve months. The MCI reflects the impact of the costs of labor, materials and contract services on the actual 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

Total nonfarm payroll employment rose by 199,000 in December, and the unemployment rate declined to 3.9 percent, the U.S. Bureau of Labor Statistics reported in January. Employment continued to trend up in leisure and hospitality, in professional and business services, in manufacturing, in construction, and in transportation and warehousing. The unemployment rate declined by 0.3 percentage point to 3.9 percent in December, and the number of unemployed persons decreased by 483,000 to 6.3 million. Over the year, these measures are down by 2.8 percentage points and 4.5 million, respectively. In February 2020, prior to the coronavirus (COVID-19) pandemic, the unemployment rate was 3.5 percent, and unemployed persons numbered 5.7 million. The number of long-term unemployed (those jobless for 27 weeks or more) declined by 185,000 to 2.0 million in December. This measure is down from 4.0 million a year earlier but is 887,000 higher than in February 2020. The long-term unemployed accounted for 31.7 percent of the total unemployed in December



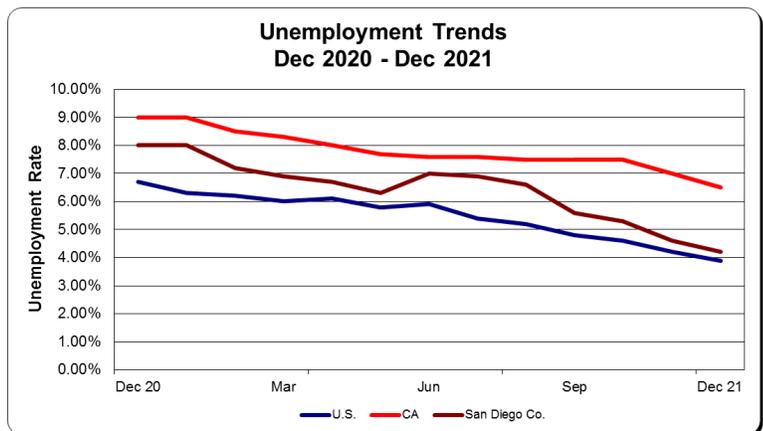
Federal Funds Rate (Discount Rate)

A recent statement issued by the Federal Open Market Committee (FOMC) indicates that the sectors most adversely affected by the pandemic have improved in recent months but continue to be affected by COVID-19. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent.

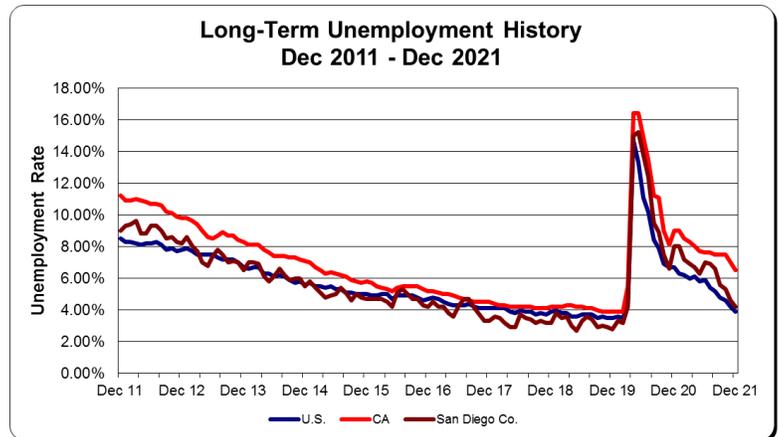
STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS

State and Local Unemployment

The state unemployment rate declined from 7.5 percent in October to 7.0 percent in November before declining another half percent to 6.5 percent in December. The County of San Diego and the City of La Mesa unemployment rates decreased from 5.6 percent and 5.8 percent respectively in September to 5.3 percent in October and 4.6 percent in November before each declining further to 4.2 percent and 4.0 percent in December.



California’s labor market continued to expand at a steady pace in December, with total nonfarm employment in the state growing by 50,700 positions over the month, according to an analysis released jointly with the UCR School of Business Center for Economic Forecasting and Development. California growth accounted for just over one-quarter of the nation’s overall job gains for the month.



“Many states have fully recovered the jobs they lost during the pandemic,” said Taner Osman, Research Manager at Beacon Economics and the Center for Forecasting. “Since California is still playing catch-up, we expect to see stronger job growth in the state in 2022, compared to the nation overall.”

California’s unemployment rate fell to 6.5 percent in December, a 0.5 percentage-point decline from the previous month. However, the state’s unemployment rate remains elevated relative to the 3.9 percent rate in the United States overall. California’s labor supply has contracted significantly since the start of the pandemic. Despite an expansion of 30,200 workers in December, since February 2020, the state’s labor force has shrunk by 358,100 workers, a 1.8 percent decline.

Local Economic Outlook

According to Beacon Economics Fall 2021 Economic Forecast, the recovery of San Diego’s labor market has lagged in the Inland Empire but outperformed the Los Angeles metro. Apartment demand is still depressed in the region with lower rents and higher vacancy rates compared to pre-pandemic levels.

Although the San Diego metro has gained jobs in all but one of the last seven months, the region has recovered only 57 percent of the total jobs lost in March and April 2020, the onset of the pandemic. With more than 40 percent of pre-pandemic jobs yet to be regained, the trajectory of recovery among different industries has varied significantly. While industries such as Leisure and Hospitality and Other Services have seen strong growth in recent months, they still have a long way to go to recover all the jobs lost following April 2020’s historic decline.

The pandemic’s impact on the San Diego apartment market has been significant. Apartment demand took a hit last year as buyers and sellers grappled with work from home (WFH) policies and the fact that many workers no longer needed to live near their place of employment. After rising 18% in 2021, the apartment rental market has stabilized and fell 0.2 percent in December. As the labor market picks up, and as work from home trends move to a hybrid structure, Beacon Economics expects San Diego rents to increase across the remainder of this year.

Local Sales Tax Allocations

La Mesa’s receipts from July through September were 12.8% above the third sales period in 2020. Excluding reporting aberrations, actual sales were up 13.2%.

This strong percentage gain signifies the continued rebound from the pandemic impacts of a year ago. Sensational returns from multiple retailers including family apparel, specialty and electronics/appliance stores were largely responsible for the general consumer growth.

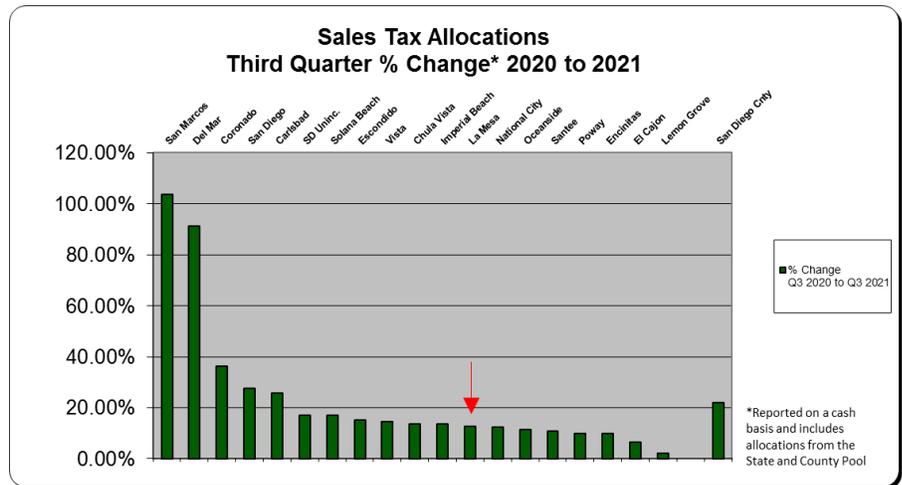
With minimal mask requirements and continued pent up demand to eat out, casual and quick-service restaurants receipts were only surpassed by amounts reported last quarter in the City’s history. An increased number of summer travelers and commuters brought about a lack of supply having upward pressure on gas prices resulted in stellar gains from service stations, while receipts from building-construction suppliers rose with a solid housing market and increased cost of lumber having a positive impact.

The City’s transaction tax experienced similar positive results with increased vehicles purchased-registered, solid online sales activity by residents and local restaurants contributing the most.

STATE BUDGET

Governor Gavin Newsom released his proposed 2022-23 state budget in a news conference in Sacramento on January 10, 2022, drawing on a second year of stronger-than-expected revenues to call for a series of emergency investments to respond to the public health effects of COVID-19 and a combination of one-time and ongoing investments to provide greater support for the health and economic well-being of Californians. The proposed \$213 billion General Fund spending plan includes total reserves of \$35 billion. Negotiations with lawmakers on the budget proposal for 2022-23 will take place over the next several months with a June 15 passing deadline.

Staff will continue to closely monitor the State’s budget situation and review any actions by the legislature that might significantly impact the budget.



GENERAL FUND SUMMARY

General Fund Resources

General Fund revenues have come in about as expected through the second quarter of fiscal year 2021-2022. 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 second quarter of the fiscal year will not equate to 50 percent of the total annual revenues that are eventually received.

General Fund Resources	Current Fiscal Year			Prior Year Comparison	
	2021-2022 Through 50% of Fiscal Year Budget ¹	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (unaudited)	% of Budget Collected
Revenues:					
Taxes					
Property Tax	\$ 15,691,510	\$ 3,555,335	22.7%	\$ 3,586,123	23.1%
Former Tax Increment (RDA)	343,600	-	0.0%	-	0.0%
Sales	14,145,000	5,430,634	38.4%	4,643,265	38.4%
Proposition L	9,974,000	3,890,028	39.0%	3,236,084	38.3%
Cannabis Business Tax	2,000,000	629,612	31.5%	552,065	110.4%
Other	3,206,700	963,863	30.1%	745,274	23.0%
Subtotal taxes	45,360,810	14,469,472	31.9%	12,762,810	31.7%
Licenses & permits	1,580,500	972,584	61.5%	699,668	51.5%
Fines, forfeitures & penalties	376,100	148,620	39.5%	114,990	26.9%
Use of money and property	1,365,920	625,176	45.8%	419,023	28.6%
Revenue from other agencies	1,258,120	750,382	59.6%	414,431	39.9%
Service charges	1,869,100	1,017,750	54.5%	512,075	22.3%
Other revenue	145,490	90,938	62.5%	90,241	61.3%
Total revenues	51,956,040	18,074,923	34.8%	15,013,238	32.0%
Other financing sources:					
Interfund transfers in	2,902,200	1,222,160	42.1%	1,179,575	42.8%
Interfund transfers out	(1,910,530)	(529,900)	27.7%	(341,800)	26.5%
Total other financing sources	991,670	692,260		837,775	
Plus: Fund Balance at July 1	31,208,810	31,208,810	100.0%	32,051,168	100.0%
Total resources	\$ 84,156,520	\$ 49,975,993	59.4%	\$ 47,902,181	59.5%

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

- ✓ Overall, total general fund revenues are meeting budgetary expectations when compared to the same period last fiscal year.
- ✓ Property tax revenues received through the first quarter are slightly lower than the same time last year. Because the majority of property tax revenues are received in December and April, second quarter revenues are historically below 50 percent.

- ✓ Sales tax revenues received through the second quarter are about the same when compared to the same time last year.
- ✓ Proposition L sales tax revenues are slightly higher when compared the same time last fiscal year and are within 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.
- ✓ Cannabis Business Tax has been separated out as its own line item in this second quarter report. The budget for Cannabis Business Tax revenue was increased from \$500,000 in FY 20-21 to \$2,000,000 in FY 21-22. Cannabis Business Tax revenues are meeting budgetary expectations in the second quarter and are anticipated to exceed the budgeted revenue by the end of the fiscal year. Sales tax collected from cannabis related businesses in the third quarter of FY 20-21 was over \$159,000.
- ✓ Other General Fund revenues, including licenses and permits, fines, forfeitures and penalties, which includes parking enforcement, use of money and property, which includes recreation facility rentals, revenue from other agencies and service charges are each up when compared to last year as a direct result of reduced COVID-19 restrictions.
- ✓ 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

General Fund Expenditures			
Through 50% of Fiscal Year	2021-2022 Budget¹	YTD Encumbered/ Expended²	% of Budget
General Fund Department Expenditures			
Police	\$ 22,555,300	\$ 10,802,830	47.9%
Fire	13,530,520	6,861,957	50.7%
Public Works	10,345,500	5,219,512	50.5%
Administrative Services	7,974,070	3,605,805	45.2%
Community Development	2,675,110	1,208,941	45.2%
Community Services	1,991,180	983,758	49.4%
Total General Fund Expenditures	<u>\$ 59,071,680</u>	<u>\$ 28,682,803</u>	48.6%

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

- ✓ All departments are at or slightly below expectations through 50 percent of the fiscal year.

General Fund Reserves

The Budget Monitoring Report for June 30, 2021 included an estimate of available reserves for fiscal year 2020-2021 of \$31,208,810. As the impacts of COVID-19 on General Fund reserves were not as severe as originally anticipated, the General Fund outlook improved. The audited actual ending General Fund reserves reported in the June 30, 2021, financial statements is \$36,598,856. The increase over the projected amount is mostly due to much better than anticipated Sales Tax, Proposition L Sales Tax and Cannabis Tax revenues and some savings in expenditures for professional services and special departmental supplies. The approved Final Budget for FY 21-22 includes estimated available reserves at June 30, 2022 of \$26,930,800. This reserve balance will be further refined based on updated expenditure estimates as part of the General Fund financial forecast in March 2022.

	Actuals			Final Budget FY 21-22
	FY 18-19	FY 19-20	FY 20-21	
Available Reserves at June 30	31,499,284	32,051,168	36,598,856	26,930,800
Reserves as % of Operating Expenditures	60.4%	61.5%	69.6%	45.6%
Source of Reserves:				
Property Sale (Police Station)	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
Proposition L Revenues	8,940,142	8,741,926	8,673,000	8,673,000
Reserves from Operations	15,509,142	16,259,242	20,875,856	11,207,800
Total Ending General Fund Reserves	31,499,284	32,051,168	36,598,856	26,930,800

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 in fiscal year 2021-2022.

CONCLUSIONS

After an unprecedented year, the nation’s economy is in a stage of recovery. Economists are anticipating that this momentum will continue in the coming months and year. Although La Mesa currently maintains a healthy reserve, we will continue to monitor any continuing impacts of COVID-19 on revenues and expenditures. Property tax revenues as well as other General Fund revenues remain stable. Overall General Fund expenditures continue to be within budgetary expectations. Finally, projected General Fund reserves 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 Tammi Royales 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.