



2018-2019 Budget Monitoring Report

Quarter Ending June 30, 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.

Table of Contents

	<u>Page</u>
Executive Summary	2
Resources	7
Appropriations	8
Reserves	9
Reader's Guide	10

EXECUTIVE SUMMARY

This Budget Monitoring Report details and analyzes economic indicators and forecasts based on certain assumptions and published projections through the quarter ending June 30, 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.

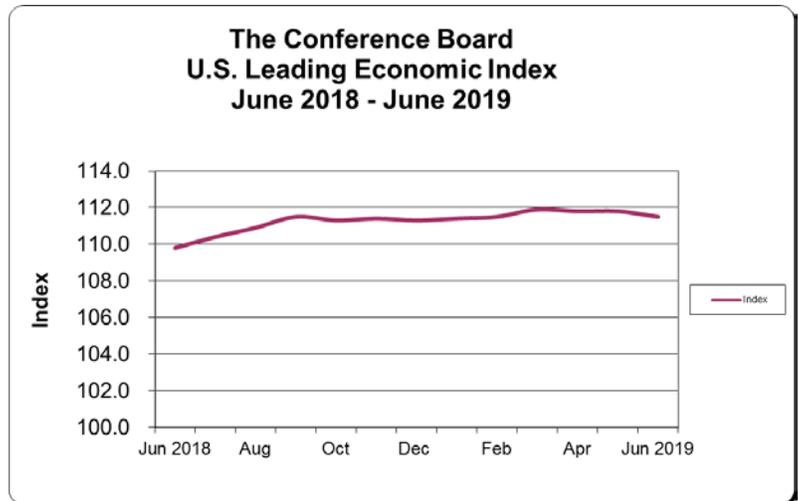
NATIONAL ECONOMIC INDICATORS AND FORECASTS

U.S. Leading Economic Index

The Conference Board Leading Economic Index (LEI) for the U.S. declined 0.3 percent in June to 111.5, following no change in May and a 0.1 percent decrease in April. “The US LEI fell in June, the first decline since last December, primarily driven by weaknesses in new orders for manufacturing, housing permits, and unemployment insurance claims,” said Ataman Ozyildirim, Director of Economic Research at The Conference Board. “As the US economy enters its eleventh year of expansion, the longest in US history, the LEI suggests growth is likely to remain slow in the second half of the year.”

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

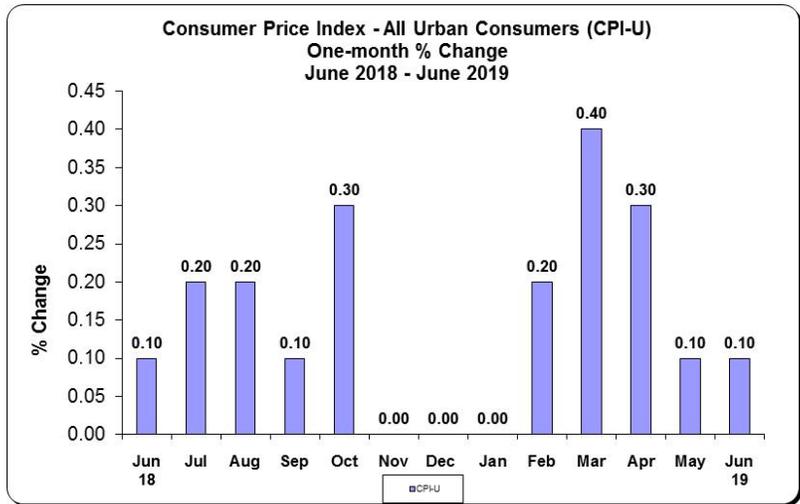
	Index	% Change
Jun 2018	109.8	0.50%
Jul	110.4	0.60%
Aug	110.9	0.50%
Sep	111.5	0.50%
Oct	111.3	-0.20%
Nov	111.4	0.10%
Dec	111.3	-0.10%
Jan	111.4	0.00%
Feb	111.5	0.10%
Mar	111.9	0.40%
Apr	111.8	-0.10%
May	111.8	0.00%
Jun 2019	111.5	-0.30%



Consumer Price Index

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.1 percent in June on a seasonally adjusted basis, the same increase as in May. Over the last 12 months, the all items index increased 1.6 percent before seasonal adjustment.

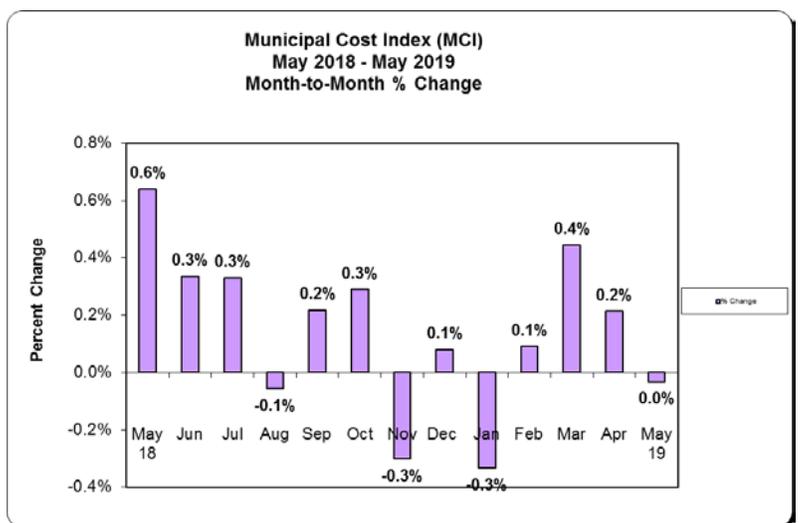
Increases in the indexes for shelter, apparel, and used cars and trucks more than offset declines in energy indexes to result in the seasonally adjusted all items monthly increase in June. The energy index fell 2.3 percent as all of the major energy component indexes declined. The food index was unchanged as the index for food away from home rose but the index for food at home declined.



The all items index increased 1.6 percent for the 12 months ending June 2019, a smaller increase than the 1.8 percent rise for the period ending May. The index for all items less food and energy rose 2.1 percent over the last 12 months, and the food index increased 1.9 percent. The energy index, in contrast, declined 3.4 percent over the last 12 months.

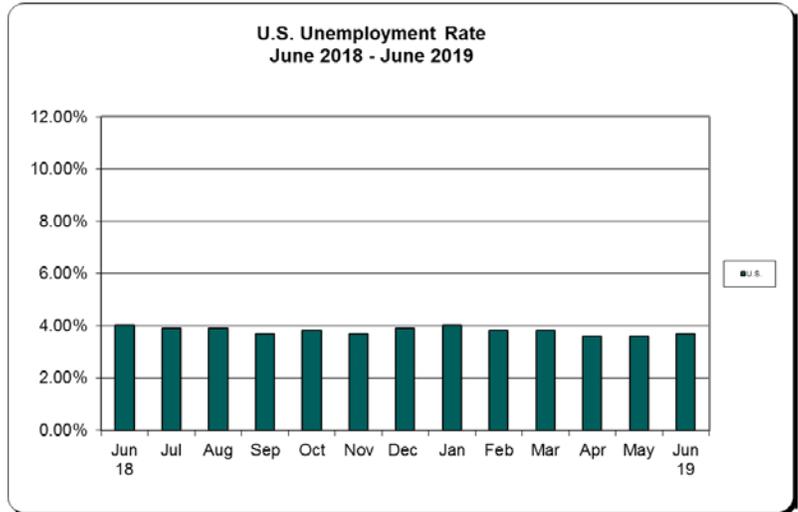
Municipal Cost Index

The Municipal Cost Index (MCI) decreased by less than 0.1 percent in May after increasing 0.2 percent in April. The June figures were not available at the time this report was prepared. Overall, the MCI has increased 1.3 percent over the past twelve months, the lowest rate since 2016. The MCI reflects the impact of the costs of labor, materials and contract services on the actual inflation experienced by the City. These costs are all factored into the composite MCI. Major indicators of these items used for the MCI include the Consumer Price Index, the Producer Price Index and the construction cost indexes published by the U.S. Department of Commerce.



U.S. Unemployment Rate

The national unemployment rate decreased from 3.8 percent in March to 3.6 percent in April where it remained unchanged in May before increasing slightly to 3.7 percent in June. The unemployment rate has remained well below 6 percent since September 2014 and has been at or below 4.0 percent since March 2018. Notable job gains occurred in professional and business services, in health care and in transportation and warehousing. The number of long-term unemployed persons was little changed at 1.4 million in the month of June, accounting for approximately 23.7 percent of the unemployed. Over the past twelve months, the unemployment rate was down by 0.3 percent.



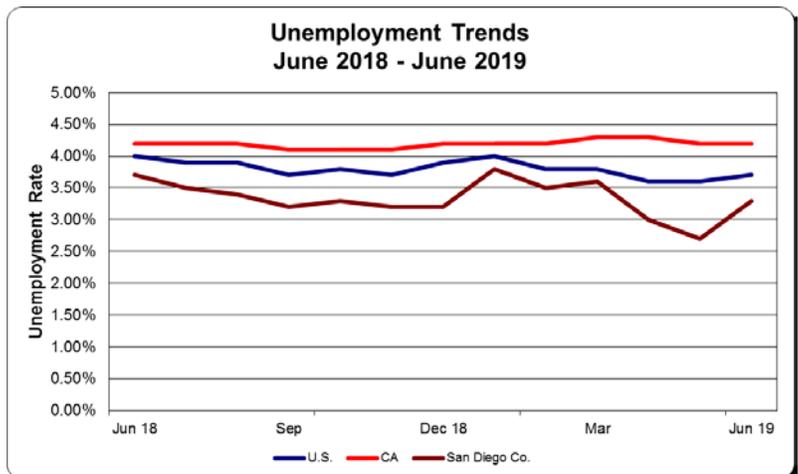
Federal Funds Rate (Discount Rate)

Information received since the Federal Open Market Committee (FOMC) met over the last quarter indicated that the labor market remains strong and economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. On a 12-month basis, overall inflation and inflation for items other than food and energy are running below 2 percent. In June, the FOMC decided to maintain the federal funds rate at 2.25 to 2.5 percent but monitor the implications of incoming information for the economic outlook for the coming months. When the FOMC met in July, however, the Committee voted to lower the federal funds rate to 2 to 2.25 percent. "This action supports the Committee's view that sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective are the most likely outcomes, but uncertainties about this outlook remain."

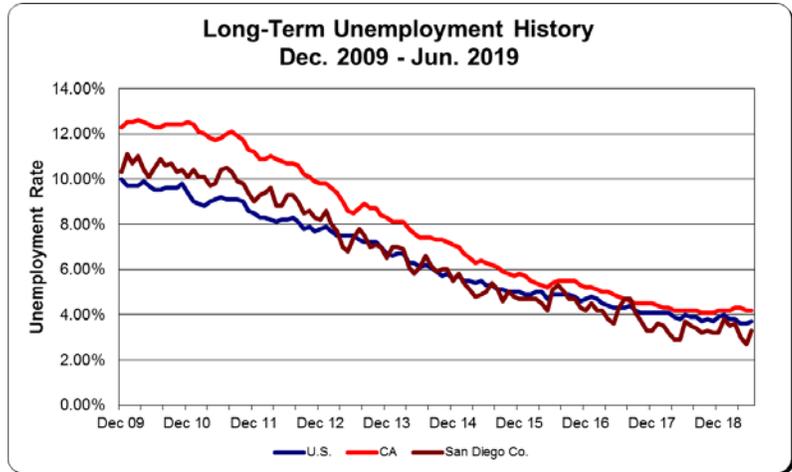
STATE AND LOCAL ECONOMIC INDICATORS AND FORECASTS

State and Local Unemployment

The state unemployment rate remained unchanged at 4.3 percent during March and April before decreasing slightly to 4.2 percent in May and June. The County of San Diego and the City of La Mesa unemployment rates decreased by .6 percent and .5 percent respectively, to 3 percent in April. Unemployment rates for both the County and the City decreased further to 2.7 percent in May before increasing to 3.3 percent in June. According to the Summer



2019 San Diego Regional Outlook published by Beacon Economics, “the County’s overall unemployment growth has decelerated with a few industries actually shedding jobs, year-over-year. Despite a healthy unemployment rate, the supply of labor in San Diego County has grown slowly in 2019 and actually declined year-over-year in the most recent data.” “San Diego’s decline in unemployment might well be driven by slow growth in its labor force since the start of this year. In fact, the County’s labor force contracted marginally, by .3 percent year-over-year as of April 2019.” San Diego County’s Education industry continues to lead all sectors in terms of percentage growth, expanding by 10.3 percent or 3,100 jobs from April 2018 to April 2019. The Professional, Scientific, and Technical Services industry added the greatest absolute number of jobs at 4,100 and captured the second highest growth rate at 5.5 percent. Looking ahead, Beacon Economics is forecasting San Diego County’s unemployment rate to remain in a narrow range around its current reading through 2019. Total nonfarm employment in the region is expected to expand in percentage terms by 1.4 percent over the year, with slightly slower job growth occurring in 2020.



Local Economic Outlook

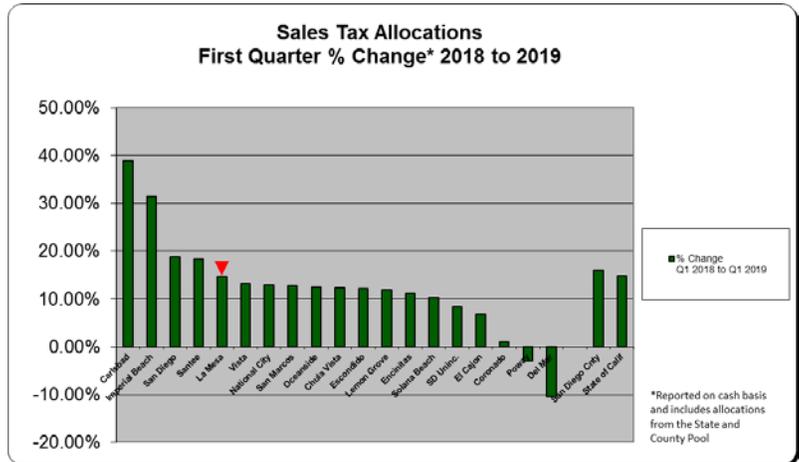
The Beacon Economics Summer forecast for 2019 predicts continued slower growth when compared to previous years but that this slowing is due more to normal business cycles than any indication of a possible recession. According to Chris Thornberg, “while there have been weaker-than-normal numbers in some 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.”

Beacon Economics reported that the median price of an existing single-family home in San Diego County has continued to increase, but the rate of appreciation appears to be decelerating. As of the first quarter of 2019, the median price for an existing single-family home reached \$609,600, up 1.8% over the first quarter of 2018, but well below last year’s 7.5% increase. From the first quarter of 2018 to the first quarter of 2019, average apartment rent in San Diego County increased 3.7% to reach \$1,952/month.

Local Sales Tax Allocations

First quarter 2019 sales tax revenues continue to be received at expected levels. The comparison to the first quarter 2018 is a little misleading as Q1 of 2018 was the beginning of the CDTFA's reporting and allocation issues that have since been resolved.

When comparing with other agencies and the county and state as a whole, La Mesa's increase is just above the median for all jurisdictions during this time period and slightly below the County and State rates. Actual year to date receipts continue to be received at the expected rate.



STATE BUDGET

After presenting the Governor's Proposed Budget in January, the Governor presented the May Revise before the 2019-20 California State Budget was passed by the State Legislature and signed by the Governor on June 27, 2019. In the end, the enacted 2019-2020 budget was essentially unchanged from the Proposed Budget and May Revise and maintained a structural balance while focusing on saving and preparing for the uncertain times in the future. Included in the enacted budget is \$4.5 billion to eliminate debts and reverse deferrals, \$5.5 billion to build reserves, and \$4.3 billion to pay down unfunded retirement liabilities. The enacted budget includes investment in California's emergency preparedness, response, and recovery capabilities that includes \$240.3 million to augment the California Department of Forestry and Fire Protection's (CAL FIRE's) firefighting capabilities and funds for forest management to increase fire prevention and complete additional fuel reduction projects. The budget also funds programs to provide relief to low income families and to help fund homeless shelters and mental health programs.

Important to note in the enacted budget is that there is no mention of takeaway of local revenues. However, staff continues to closely monitor the State's budget situation and reviewing any actions by the legislature that might significantly impact the budget.

GENERAL FUND SUMMARY

General Fund Resources

General Fund revenues received through the fourth 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 with a final accrual received and recorded in mid-August. For this reason, revenue streams received from these sources through the fourth quarter of the fiscal year will not equate to 100 percent of the total annual revenues that are eventually received.

General Fund Resources	Current Fiscal Year			Prior Year Comparison	
	2018-2019 Budget ¹	YTD Collected (unaudited)	% of Budget Collected	YTD Collected (audited)	% of Budget Collected
Through 99% of Fiscal Year					
Revenues:					
Taxes					
Property Tax	\$ 13,743,880	\$ 13,858,923	100.8%	\$ 13,095,511	100.5%
Former Tax Increment (RDA)	340,400	377,084	110.8%	345,389	103.7%
Sales	12,987,000	11,085,335	85.4%	12,950,303	99.2%
Proposition L	8,591,000	7,545,338	87.8%	8,916,466	104.3%
Other	3,361,700	3,082,914	91.7%	3,577,094	109.2%
Subtotal taxes	39,023,980	35,949,593	92.1%	38,884,763	101.7%
Licenses & permits	1,600,200	2,153,491	134.6%	1,517,803	93.1%
Fines, forfeitures & penalties	610,100	543,792	89.1%	748,078	132.2%
Use of money and property	1,290,900	923,704	71.6%	1,564,582	121.4%
Revenue from other agencies	1,003,000	1,308,734	130.5%	1,483,314	164.8%
Service charges	2,353,500	2,225,329	94.6%	2,195,464	89.1%
Other revenue	122,900	296,427	241.2%	220,953	204.8%
Total revenues	46,004,580	43,401,070	94.3%	46,614,958	103.1%
Other financing sources:					
Interfund transfers in	2,878,200	2,574,344	89.4%	2,837,315	96.2%
Interfund transfers out	(1,420,630)	(1,031,300)	72.6%	(1,635,430)	100.0%
Total other financing sources	1,457,570	1,543,044		1,201,885	
Plus: Fund Balance at July 1	30,470,121	31,578,785	103.6%	29,696,208	100.0%
Total resources	\$ 77,932,271	\$ 76,522,900	98.2%	\$ 77,513,051	172.9%

¹ 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 time last fiscal year.
- ✓ Property tax revenues received through the fourth quarter are slightly above both budgetary amounts and total amounts received in the prior year.

- ✓ Base sales tax revenues earned through June 2019 are received in July and August and accrued back to fiscal year 2018-2019. Information received from the City's sales tax consultant HdL and July's receipts indicate that the final revenues will be slightly higher than previously estimated.
- ✓ Proposition L sale tax revenues are at about the same levels as base sales tax 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.
- ✓ Other taxes earned in fiscal year 2018-2019, including transient occupancy tax, cable television franchise tax, and refuse franchise tax, are also received in July and August and will be accrued back to the prior year as received. Preliminary estimates indicate that all other taxes will meet budgetary expectations.
- ✓ Most other General Fund revenues were received within expected levels. Licenses and permits, specifically those that were development related, as well as Other revenues exceeded both budgetary expectations and when compared to the prior fiscal year. Service charges were received at slightly less than budgetary expectations but at levels that exceeded the prior year. Revenue from other agencies exceeded budgetary expectations but at levels less than the prior year. Only Fines, forfeitures, and penalties, and Use of money and property came in at both less than budget and at levels less than those received in the previous 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.
- ✓ 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

- ✓ With 99% of the year complete and most expenditures recorded, the General Fund expenditures ended the year at just over 94 percent of budget.
- ✓ These amounts include most General Fund operating expenses through the end of the fiscal year and are reflected in the estimated ending reserves.

General Fund Expenditures			
Through 99% of Fiscal Year	2018-2019 Budget ¹	YTD Encumbered/ Expended ²	% of Budget
General Fund Department Expenditures			
Police	\$ 19,885,855	\$ 18,590,165	93.5%
Fire	11,422,840	10,922,496	95.6%
Public Works	9,184,470	9,204,726	100.2%
Administrative Services	7,410,530	6,536,169	88.2%
Community Development	2,491,985	2,346,830	94.2%
Community Services	1,772,300	1,579,342	89.1%
Total General Fund Expenditures	<u>\$ 52,167,980</u>	<u>\$ 49,179,728</u>	94.3%

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

General Fund Reserves

The Budget Monitoring Report for March 31, 2019 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		Financial Forecast Est Reserves	Projected Estimated Reserves
	FY 15-16	FY 16-17	FY 17-18	Mid- Biennium Budget	Revised Ending Reserves		
Available Reserves at June 30,	29,395,841	29,696,208	31,578,785	27,584,491	24,587,935	25,606,795	28,963,601
Reserves as % of Operating Expenditures	63.1%	60.7%	65.3%	54.9%	47.9%	48.1%	57.0%
Source of Reserves:							
Property Sale (Police Station)	3,050,000	3,050,000	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	4,000,000	4,000,000
Proposition L Revenues	8,298,939	8,406,483	8,916,466	8,591,000	8,591,000	8,591,000	8,591,000
Reserves from Operations	14,046,901	14,239,724	15,612,320	11,943,491	8,946,935	9,965,795	13,322,601
Total Ending General Fund Reserves	29,395,841	29,696,208	31,578,785	27,584,491	24,587,935	25,606,795	28,963,601

The Financial Forecast projected an estimated ending General Fund Balance of \$25,606,795. With the revenues received to date, the estimated tax accruals, and the expenditures incurred to date, the ending estimated reserves are \$28,963,601 or 57 percent. This will be the revised beginning General Fund balance for the 2019-2021 Final Budget.

The City Council’s reserve policies formally establish two General Fund reserve targets: a Rainy Day Reserve target of 15 percent and an additional Cash Flow Reserve target of 25 percent.

Because of the additional Proposition L Sales Tax revenues, a projected small but steady recovery of base sales and property taxes, and continued cost containment measures by departments, the General Fund reserves are projected to meet 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 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.