

Honorable Mayor and Members  
of the City Council  
City Hall  
Torrance, California

Members of the Council:

**Subject: Finance & Governmental Operations Committee - 1<sup>st</sup> Quarter 2011-12 Budget Review**

**RECOMMENDATION**

Recommendation of the Finance and Governmental Operations Committee that Your Honorable Body concur with the following recommendations:

- Accept and file the First Quarter 2011-12 Budget Review Report;
- Accept and file the City Treasurer's Investment Report; and
- Concur with staff's recommendation for the program modification.

**BACKGROUND/ANALYSIS**

On Tuesday, December 13, the Finance and Governmental Operations Committee heard a presentation from staff on the First Quarter 2011-12 Budget Review.

The Committee voted and accepted unanimously the First Quarter 2011-12 Budget Review Report, the City Treasurer's Investment Report, and the program modification.

Respectfully submitted,

Finance and Governmental Operations Committee



Councilman Bill Sutherland, Chair



Councilman Cliff Numark, Member



Councilwoman Susan Rhilinger, Member

Attachments:

- A. Executive Summary
- B. City Treasurer's Investment Report
- C. Program Modification



Committee Meeting of  
December 13, 2011

Honorable Chair and Members  
of the Finance and Governmental Operations Committee  
City Hall  
Torrance, California

Members of the Committee:

**Subject: First Quarter 2011-12 Budget Review**

### **RECOMMENDATION**

The City Manager and the Finance Director recommend that the following items be approved by the Finance and Governmental Operations Committee and recommended to City Council for action:

- Accept the First Quarter 2011-12 Budget Review Report
- Accept the City Treasurer's Investment Report
- Concur with staff's recommendation for the Human Resources Department reorganization

### **EXECUTIVE SUMMARY**

The General Fund 2010-11 fiscal year ended with a net carryover of approximately \$241,000. Although the carryover was positive, the general fund revenues for the year had a budget shortfall of approximately \$6 million which was offset by net expenditure savings and use of fund balance of \$6.2 million. The shortfall in fiscal year 2010-11 revenues was primarily due to a decline in utility users' tax revenues (revenues from cell phones and natural gas consumption), interest earnings and fines and forfeitures.

Fiscal Year 2011-12 expenditures for all departments as of September 30, 2011 are at 23.0% compared to 25.1% of the year expired. General fund expenditures for the 1<sup>st</sup> quarter are comparable to last year of 25.4% and 22.7% for the 2009-10 fiscal year.

Revenues for the City are seasonal and major revenues such as property taxes are not received until December and receipts for business license taxes begin in January. Revenues received for the 1<sup>st</sup> quarter totaled 10.5% of budget, which is slightly down from 11.1% for the 2010-11 fiscal year.

The three "core" revenue sources of the General Fund; Property taxes, Sales taxes, and Utility Users' taxes represent about 69.0% of the General Fund. Sales tax receipts to date are tracking well and are up by 3.3% over last year. The City receives "advance" payments based on formulas throughout the quarter and the "true-up" payment for 2<sup>nd</sup> quarter sales tax (July thru September sales) will not be received until later this month. September 30, 2011 actual revenues as a percentage of budget totaled 15.1% compared to 16.8% in fiscal year 2010-11. One of the primary reasons for the year over year difference is that Utility Users' Tax (UUT) receipts continue to be depressed and are down approximately 1.7% compared to last year.

#### **A Snapshot of Torrance**

Population: 145,927  
Area: 21 Square Miles  
1,289 Full-time Employees  
6 Fire Stations  
1 Police Station &  
1 Police Community Center  
223 Sworn Police Employees  
145 Sworn Fire Employees  
6 Public Libraries  
47,000 Street Trees  
550 Miles of Sidewalks  
46 Parks & Recreation Amenities

The primary cause for lower than projected UUT receipts is the reduction in consumption of natural gas by the City's industrial users and cellular phone charges. This is a revenue source that will be closely monitored and further discussions/analysis will be addressed at mid-year.

While "core" revenues represent about 69% of General Fund revenues, business licenses, franchise fees and occupancy taxes represent an additional 11% of General Fund revenues. Occupancy tax revenues thru the 1<sup>st</sup> quarter are tracking slightly above budget estimates and are showing about a 4.6% growth over last year. Business License tax receipts will begin to arrive in late January and the bulk of Franchise fees for the City's utility providers will arrive in April.

One revenue source that will not be received is vehicle license fees (VLF). One of the last minute budget adjustments for the State of California redirected VLF away from cities. The impact to Torrance is approximately \$530,000. Earnings on the investment portfolio continues to track below budget and given the current "Fed" policy, will most likely not be within budget at fiscal year end. Construction taxes, while volatile, is tracking 13% above budget for preliminary November receipts. Construction related taxes are expected to continue its upward trend due to the major projects that are in various phases of completion. Projects such as the WalMart renovation, Ball Corporation, the new Audi dealership, Hyundai dealership, In/Out burgers, OSH Hardware, Torrance Memorial and Little Company of Mary will all generate significant construction related tax revenues for the City this fiscal year. Other revenues such as Fines & Forfeitures and Charges for Service are also tracking within budget estimates. As of September 30, 2011 parking citations and general court fines were below last year's collection rates; however, preliminary November/December receipts reflect an upward trend in these revenue sources and budget estimates are expected to be achieved.

## Economy

The recession has ended and most City revenues, with the exception of Utility Users' Tax, are growing. Retail sales news continues to be positive as National retail sales grew approximately 8.0% year over year through September 2011; "Black Friday" purchases are up by 7.0 % over last year and on the following Monday (Cyber Monday) consumers increased their purchases by 22.0% over last year; and new automobile sales are up 9% over November of last year. The two aforementioned indicators are signs that consumer spending and consumer confidence levels have improved from a year ago. At the beginning of the 2011-12 fiscal year, the consumer confidence level was at 59.2% but it dropped 31% down to 40.9% in October 2011. On November 29, 2011 CNBC reported that the U.S. Consumer Confidence Index bounced back from nearly a 2-1/2 year low to 56.0%. The confidence level is at the highest since July and handily topped economist forecast. November employment news was positive as well as the private sector added 140,000 jobs. The private sector has now added jobs for 21 consecutive months. Having said that, the drag on jobs is in the public sector where nearly 20,000 jobs were shed in November. As the public sector continues to struggle with balancing their budgets so will public sector jobs.

The federal government's unemployment rate for October 2011 was 9.0%. The State of California reached a level of 11.7% for the same period. The State of California's October rate of 11.7% is down slightly from September 2011 where the rate was 12.4%. The slight decline in the rate is a welcome sign for the State. The unemployment rate for Torrance is 6.0%. This is well below the National, State, and County of Los Angeles averages. Neighboring cities such as

<b>October Unemployment Rate</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Los Angeles County	12.2%	12.9%	12.1%
Carson	12.0	12.8	12.1
Gardena	11.2	11.9	11.3
Glendale	10.4	11.1	10.5
Hawthorne	15.4	16.4	15.5
Inglewood	14.8	15.8	15.0
Santa Monica	9.8	10.5	9.9
Torrance	6.0	6.4	6.0

Hawthorne, Inglewood, Carson, Gardena and Santa Monica's unemployment rate are not as fortunate and are more in-line with the State and National rate. On December 7, 2011, the United State's Department of Labor announced that the November national unemployment rate dropped from 9.0% in October to 8.6%.

The Stock Markets may not be able to predict recessions, but they are a barometer of wealth accumulation and for good or bad, the performance of the markets is directly related to the confidence in the economy. The Dow Jones Industrial Average while declining over 10% during the first quarter has completely recovered and trading slightly above July 1 levels. The Nasdaq declined over 12% during the same time frame and is now only down 4% for the fiscal year.

While the news for retail sales continues to be encouraging as well as private sector employment the public sector continues to be a drag on the economy. Revenue growth for the General fund will remain moderate. The Anderson School of Business is forecasting employment growth in California of 1.4% in 2012 and 2.1% in 2013 and unemployment to hover around 11.6% through 2012.

### **Outstanding Budget Revisions:**

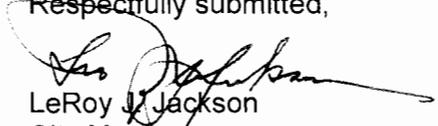
While most of the budget revisions for the 2011-12 budget have been completed, some are still in progress. The status of the budget revisions are summarized below:

#### City PERS contributions:

- All Labor Contracts have new hires paying 9% for Fire/Police and 7% for General Employees 100% of the employee share.
  - 28 General employees to date
  - Next Fire class expected in late Spring/early summer 2012
  - Police effective date January 1, 2012
- Fire Hazardous Materials Premium phase out
  - On schedule – 5 retirements to date, 7 remaining
- Conversion of Fire Battalion Chief and Captain to civilian positions
  - Both incumbents have retired, pending civilian hire
- Restructuring of Human Resources Department
  - Completed, pending relocation of employees in March 2012
- Reduction of 1.0 Senior Custodian and 1.0 Senior Custodian
  - Pending
- Permanent Weekend Maintenance Staff and Reduction of 1.0 Public Safety Dispatcher once new schedule implemented
  - In the meet and confer process
- Energy Saving Projects
  - HVAC upgrade, City Hall parking lot LED lighting and low flow plumbing fixtures – Completed (projected energy savings - \$50,000)
  - Cable Building HVAC upgrade, pool solar water heating and additional HVAC replacements are ready for bid (projected energy savings - \$30,000)
  - Street security lighting replacements, lighting upgrades, irrigation control upgrades and replacement of the east annex chiller expected to be completed by June 2012 (projected energy savings - \$290,000)

Staff will be bringing several items next week to the full Council recommending budget action to rebalance the 2011-12 fiscal year; a workshop on Public Safety Restructuring as well as Capital Budget information.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "LeRoy J. Jackson", with a long horizontal flourish extending to the right.

LeRoy J. Jackson  
City Manager

December 6, 2011

COMMITTEE MEETING  
December 13, 2011

Honorable Chair and Members  
of the Finance & Governmental Operations Committee  
City Hall  
Torrance, California

The Treasurer's Office and the Investment Advisory Committee have set out to develop and implement investment procedures that insure the City's investment objectives of a high degree of asset safety, and adequate liquidity to meet operating and capital expenditure needs and a reasonable return of the City's investment assets given the City's foremost goals of safety and liquidity.

### Investment Summary

As of September 30, 2011 total Investment Portfolio or Pooled Funds were \$150.3 million.

As of September 30, 2011 the total Restricted Funds were \$149.5 million made up of the following categories:

1) Debt Issue Proceed	\$ 9.9 million
2) Deferred Compensation Plan	
a) 457	\$ 124.2 million
b) 401(a)	\$ 6.7 million
3) Retirement Health Savings Plan	\$ 3.0 million
4) Public Agency Retirement System Plan (PARS)	\$ 5.7 million

The pooled funds consist of surplus funds invested and managed directly by the City Treasurer. To date the fund has generated year-to-date interest earnings of \$665 thousand and the effective rate of return equaled 1.70%.

Restricted funds are made up of the Debt Issue proceeds, Deferred Compensation funds, Retirement Health Savings funds and Public Agency Retirement System funds which are invested accordingly:

- 1) Debt issue proceeds are invested through a trustee appointed under the Debt Trust Indenture. The funds are invested at the direction of the City Treasurer.
- 2) Deferred Compensation fund is managed by a third party administrator - Great West Life. Investment options made available to the participants are selected and approved by the Deferred Compensation Committee. The fund is a self-

directed program. Participants have the ability to direct their contributions among several different investment options.

- 3) The Retirement Health Savings Plan is managed by a third party administrator – ICMA Retirement. Investment Options are made available to the participants and are selected by ICMA Retirement. Participants can direct their contributions among several different investment options.
- 4) The Public Agency Retirement System Plan is a 401(a) tax-qualified multiple agency trust. Union Bank is the Trustee for the trust and invests the plan assets in accordance with the investment strategy selected by the City of Torrance.

**NOTE:** The Deferred Compensation Plans, Retirement Health Savings Plan and the Public Agency Retirement Service Plan are held in trust for the benefit of the participant or their beneficiaries and are not assets of the City of Torrance.

### **Investment Forecast**

The Federal Reserve Board will continue to employ a wide range of tools to promote economic recovery and to preserve price stability. The board will maintain the target range rate of 0 to .25 percent for federal funds and continues to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period of time ranging into 2013 as stated by Chairman Bernanke. The Federal Reserve launched “Operation Twist” in October 2011 which is scheduled to end June 2012. This much expected stimulus move is the Federal Reserve Board’s attempt in reviving a policy from the 1960s that while it will not force money into the economy it is designed to lower yields on long-term bonds, while keeping short-term rates modestly changed.

### **GASB 31 Impacts on Investments**

GASB 31 took effect June 1997. The intent of GASB 31 is to bring to light potential liquidity problems by requiring municipalities to mark to market their securities with a maturity greater than one year. This paper gain or loss must be booked against investment earnings at year-end.

One way to avoid the gain/loss issue is to limit all purchases to maturities of less than one year. This condition would then preclude a market valuation and allow investments to be carried on a book value basis. This situation could reduce earnings potential in the loss of yield that a security with a longer term would usually offer.

Within our investment policy we adhere to a buy and hold philosophy. Therefore, our current strategy will not change in light of GASB 31. We will continue to invest the portfolio out along the yield curve. At the same time we keep enough liquidity to meet current and future obligations.

At the present time the monthly investment report tracks all securities by listing the face value, book value and market value. The portfolio paper gain or loss is the difference between book and market value. The unrealized gain/loss is noted monthly even though it is not physically applied to earnings until year-end.

### **Investment Strategy**

For the past three months, the activity in the economy has been very volatile. The majority of redemptions have been "called" securities and due to the declining market environment all new purchases are earning a lower rate of return. The average yield to maturity on purchases made over the last three months was 1.60%.

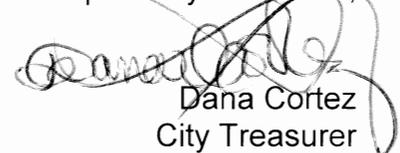
Strategically, we will continue to place money out in the market. Although the market would encourage a short portfolio, it is not our intent to change our objectives of matching purchases with cash flow needs. We will continue to place investments throughout on the yield curve to take advantage of a higher rate of return with funds that are not needed on the short term.

To be consistent with the City's objectives of high degree of asset safety, all investments will be invested in high quality rated instruments or those guaranteed by the "full faith and credit" of the government.

### **Recommendation**

Accept and file the 1<sup>st</sup> Quarter Report.

Respectfully submitted,



Dana Cortez  
City Treasurer

CONCUR:



LeRoy Jackson  
Investment Committee Member

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Committee Meeting of  
December 13, 2011

City Council Finance and Governmental  
Operations Committee  
City Hall  
Torrance, California

Members of the Committee:

**SUBJECT: City Manager – Human Resources Department Reorganization**

### **RECOMMENDATION**

Recommendation of the City Manager that the Council Finance and Governmental Operations Committee approve the Human Resources Department Reorganization and approve the following staffing changes:

- a) Transition the HR Department to a Division within the City Manager's Office
- b) Move the Risk Management Division of HR to the Finance Department
- c) Expand the scope of the Civil Service Division
- d) Delete 1.0 Human Resources Director
- e) Add 1.0 Personnel Technician

### **Funding**

Not applicable.

### **BACKGROUND AND ANALYSIS**

On June 21, 2011, as part of the 2011-13 City Operating Budget, your Honorable Body approved the reduction of 1.0 Human Resources position valued at \$125,000 pending the reorganization of the Human Resources Department. Upon further review of the Human Resources (HR) Department operations, the City Manager recommends the following key changes:

- Transitioning the HR Department to a Division within the City Manager's Office
  - Modifying the existing organization structure to develop two major HR Divisions; HR Operations and Department Support.
- Moving the Risk Management Division of HR to the Finance Department.
- Expanding the scope of the Civil Service Division to focus on marketing and recruitment of City staff and volunteers.

As part of the HR reorganization plan, the City Manager proposes utilizing existing Capital Improvement funds earmarked for the Human Resources Building Remodel in order to move the Risk Management division to the second floor of the City Hall East Annex and to remodel the existing HR building. The additional space that will become available as a result of moving Risk Management, will provide the opportunity to utilize the existing space to create additional office space for privacy, classrooms for testing, conference rooms, a dedicated lunch area and an expanded lobby. These changes will enhance the existing work environment, while creating a new entry for prospective employers and volunteers. The preliminary site plan is included as part of the attached HR Reorganization Plan.

The budget impacts of the proposed HR Reorganization are as follows:

- |  |                 |
|--|-----------------|
| • Delete 1.0 FTE Human Resources Director position | <\$240,000>     |
| • Add 1.0 FTE Personnel Technician position        | <u>\$83,300</u> |
| Budget Savings                                     | <\$156,700>     |

With the implementation of the proposed HR Reorganization, the City will position itself to become an “Employer of Choice.” The new HR model will include the HR Operations and HR Department Support functions. HR Operations will provide employees with a centralized avenue to seek assistance with transactional duties such as on-boarding, common term in Human Resources when an employee starts employment with the City. Additional functions will include providing assistance with processing benefit changes, obtaining mandatory training and all employee outreach functions. The HR Department Support function will focus on building close working relationships and awareness of individual Department needs. HR Analysts will be assigned to specific departments with the goal of assisting with exam plan development and exam results analysis, employee performance management, classification studies and compensation analysis.

The expansion of Civil Service with emphasis added on marketing and recruitment will provide an avenue for the City to actively engage in the marketplace to promote the City and to draw new talent to ensure the needs of the community are constantly met with a diverse, capable, and professional City workforce. The Civil Service team will work closely with employees leaving or retiring from the City utilizing the exit interviews process to seek feedback regarding their experience. Staff will also engage in workforce analysis to provide Department Heads with valuable information to assist with attrition planning as key positions are vacated as a result of retirements.

A key component of the reorganization is automation and visioning. With the advent of electronic communications and storage, a dedicated Senior HR Analyst will spend half of their time working to transition functions and paperwork on-line. Staff will rely on innovative measures already implemented in the City, at other agencies and the private sector to streamline processes such as processing requisitions, evaluations and benefit registrations.

### **RECOMMENDATION**

The City Manager recommends the approval of the Human Resources Department reorganization inclusive of the following key actions; creation of a Human Resources

Division reporting to the City Manager, the move of the Risk Management Division to the Finance Department, the remodel of the HR Building and the second floor of the East Annex.

Respectfully submitted,

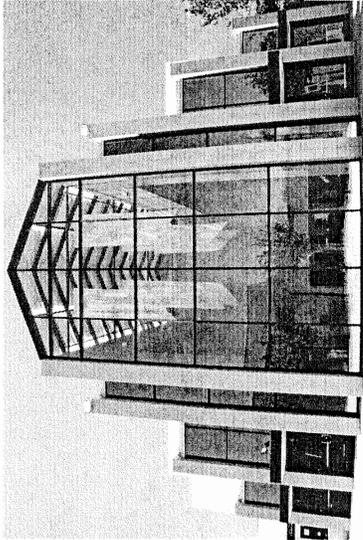
LeROY J. JACKSON  
CITY MANAGER

By   
Mary Giordano, Assistant City Manager

CONCUR:

  
LeRoy J. Jackson  
City Manager

Attachments: HR Reorganization Plan



# Human Resources



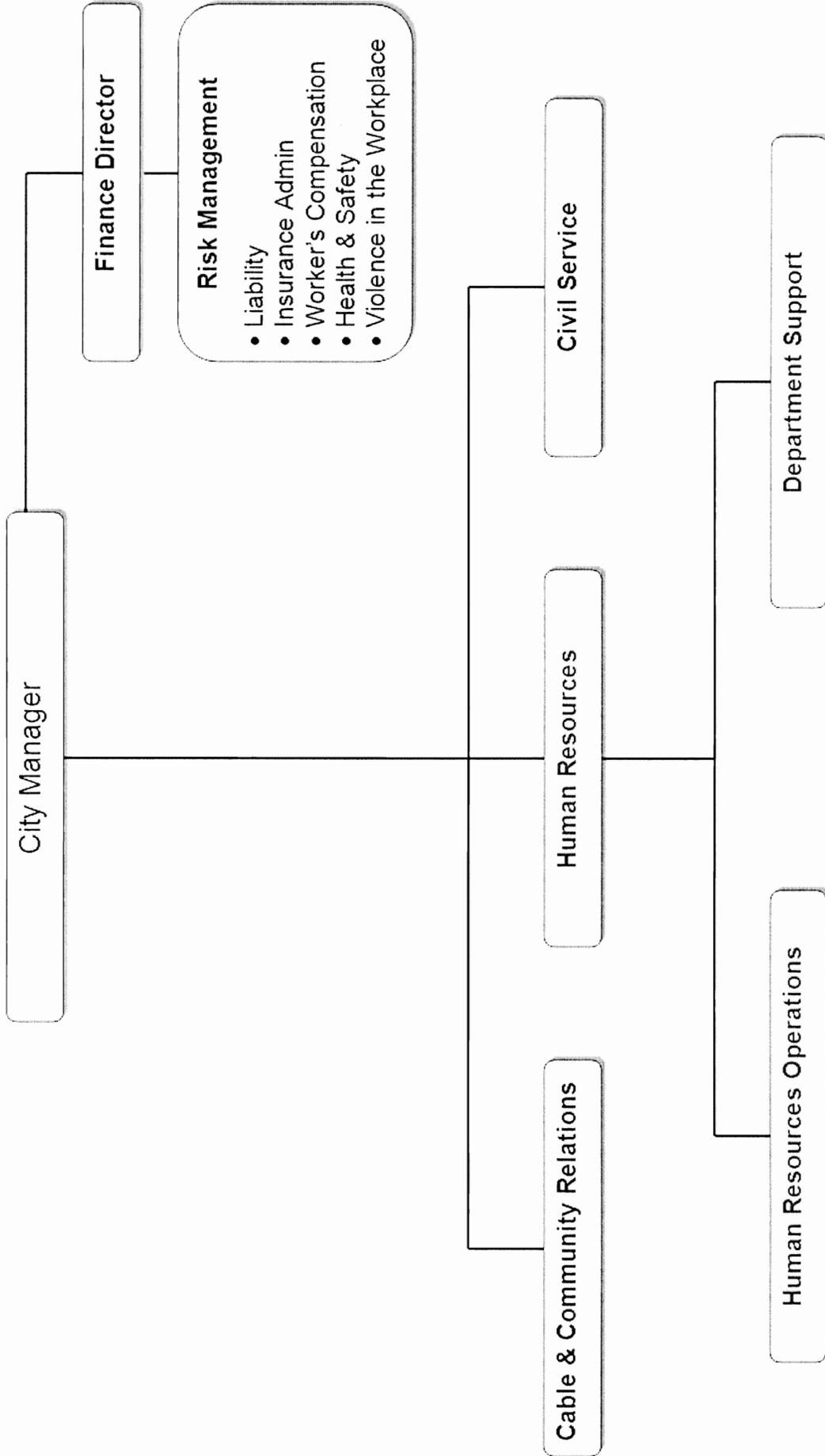
# REORGANIZATION PLAN



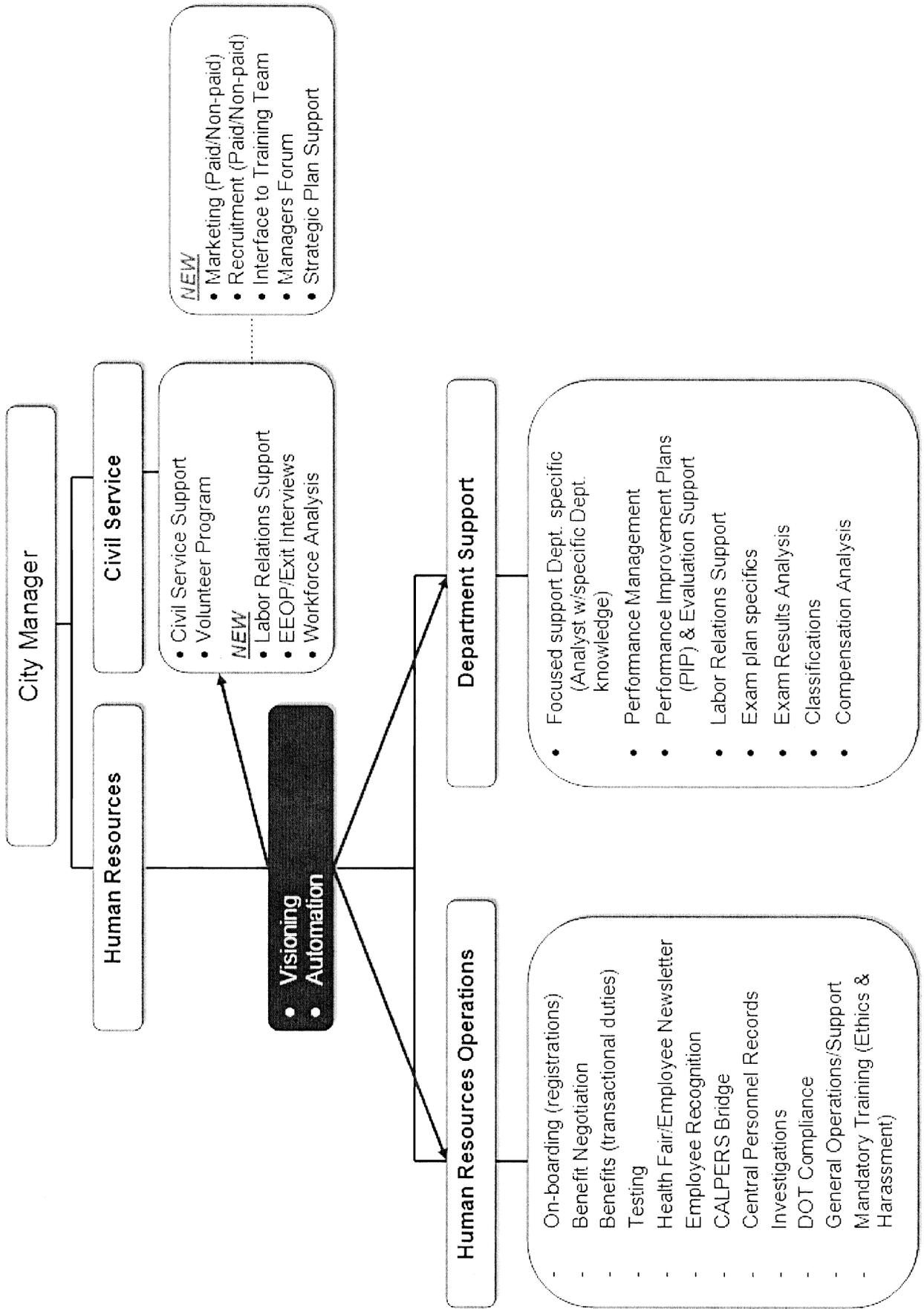
# Background

- **2011-12 Budget Action**
  - City Council Authorized Reorganization of the HR Department
    - Transition from Department to Division under City Manager
    - Move Risk Management under Finance Department
    - Expand scope of Civil Service
      - Marketing
      - Recruitment
    - HR Major Functions
      - HR Operations
      - Department Support
  - Remodel Project Chronology
    - Phase I: Move Risk Management to 2<sup>nd</sup> Floor of East Annex
    - Phase II: HR Building Remodel

# HR Division

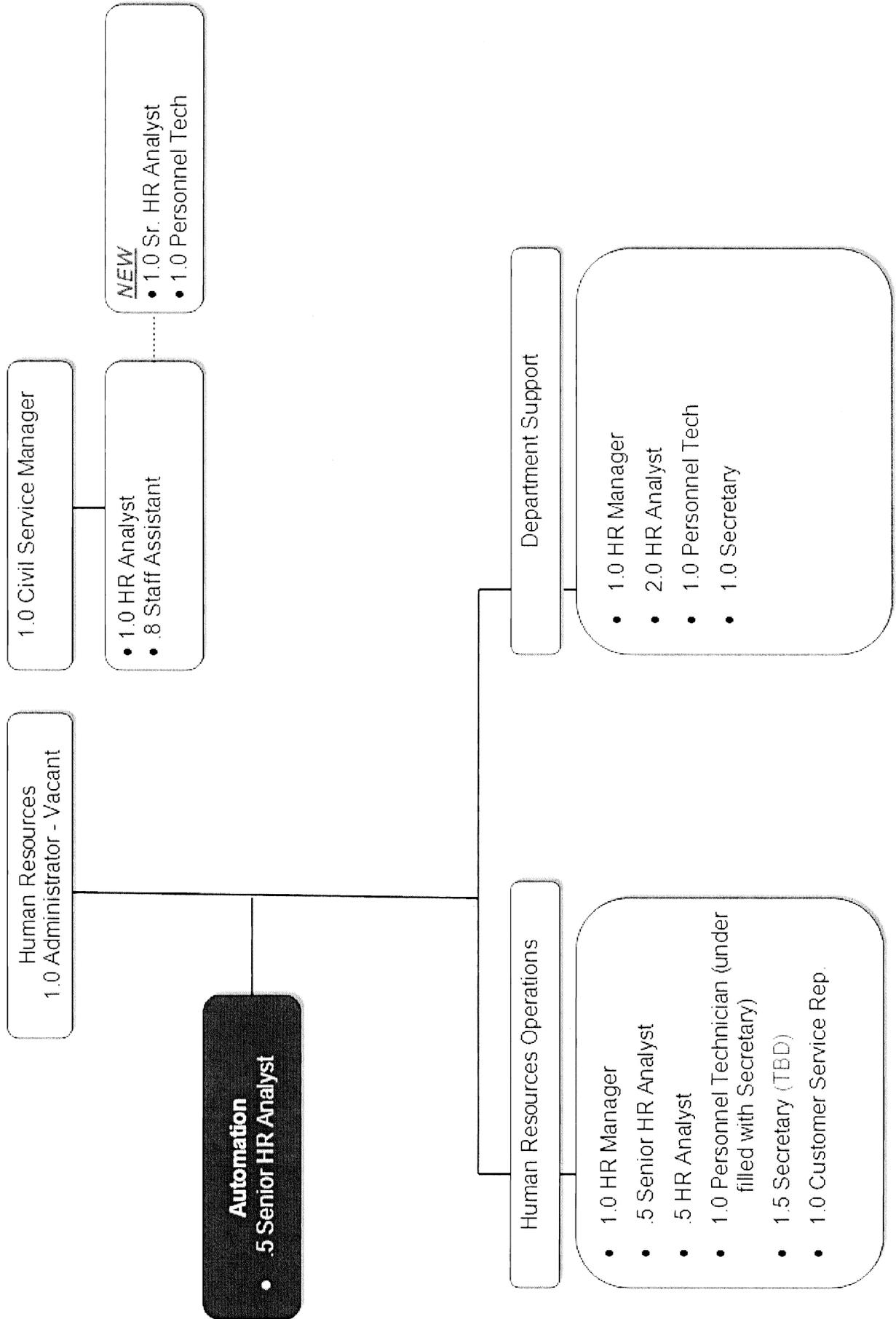


# HR & Civil Service

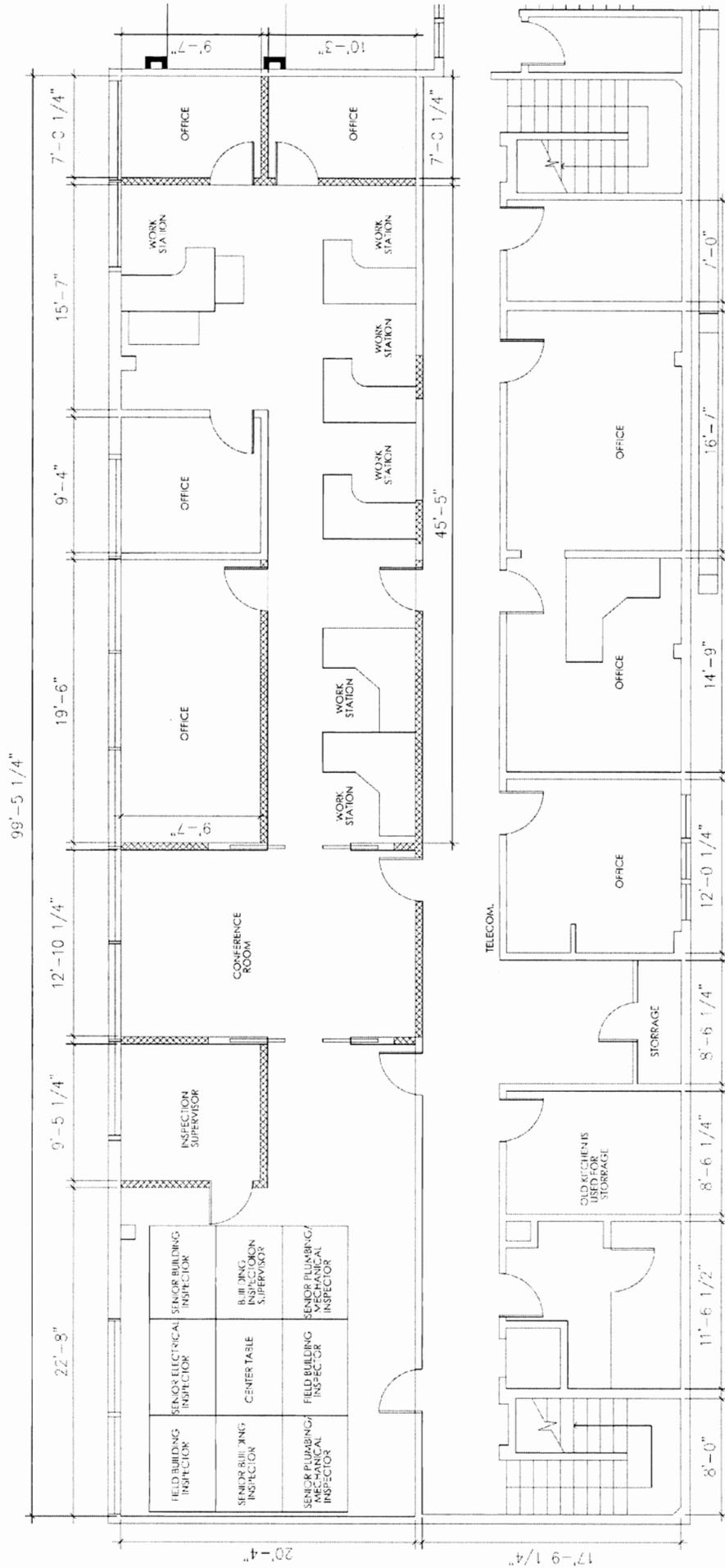


# STAFFING

\* Includes adding 1.0 Personnel Technician



# Space Plan – Risk Management



# Remodel Goals

- **Remodel Goals:**
  - Expand lobby with new storefront doors
  - Create office like atmosphere throughout existing building
  - Enclose the patio with storefront windows
  - Add carpet and lighting to existing hallways
  - Create additional conference rooms
  - Create additional office space for privacy
  - Dedicated lunch room
  - Enhance current Training Room
  - Add new concrete ramp and landing



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