

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

**Subject: City Manager and Finance – Preview direction for 2nd year of 2011-13
Operating Budget**

RECOMMENDATION

Recommendation of the City Manager and the Finance Director that City Council preview the direction for the 2nd year of the 2011-13 Operating Budget.

BACKGROUND/ANALYSIS

The first budget workshop for the 2012-13 fiscal year is scheduled for the Council meeting of May 8, 2012, followed by the second workshop on May 15. As reported during the mid-year budget review, General Fund revenues are tracking below budget estimates by 2% to 2.5% or \$3.5 to \$4.5 million. The revenue shortfall is offset by expenditure savings in the current fiscal year of \$4.5 to \$5.0 million.

Part of the plan to rebalance the 2012-13 fiscal year, as mentioned in the December 2011 budget item, is as follows:

- Continue deferment of funding post employee benefits at full actuarial estimate - \$1.0 million
- Maintain increased shift of Gas Tax revenue from capital projects to operations - \$0.2 million
- Maintain shift of the annual interest earnings from the Tax Revenue Anticipation Note (TRAN) program from capital projects to operations (earnings are partially derived from the prepayment of pension expense) - \$0.50 million
- Continue use of one time reserves to fund the State take away of Vehicle License Fees until the litigation brought by the League of California Cities under the contention that the State violated voter approved Proposition 1A with its action - \$0.53 million

This recommendation is consistent with budget actions taken in recent fiscal years to balance the budget through this recession, and the continued aftermath as the economy slowly recovers.

As part of tonight's preview of the upcoming budget, staff is reviewing methods to fund the following items based on increased program costs due to anticipated changes, impact of the economy on City programs, continued sorting of obligations with the closure of the Redevelopment Agency, and requests that Council has noted this past year:

- Addition of Police Officers (4) to manage the County/State AB 109 realignment
- Additional maintenance for expansion of park sites and new landscaping of commercial core medians
- Budget imbalance in the Recreation and Cultural Arts programs
- Strategic Plan Three-Year Update Cycle
- Replacement funding for the City's Home Improvement Program (HIP) if it is determined that this program is not a "Recognized Obligation" under the new rules for prior Redevelopment Agency debt
- Resources for outreach to a second Sister City
- 2014 Rose Float (funding requirement in 2012-13)
 - 2013 Rose Float was funded through a generous outside contribution and fund raising events

As staff looks past the 2012-13 budget to the 2013-14 and 2014-15 fiscal years, it is projected that the budget shortfall will be about \$1.8M, primarily due to the change in methodology by PERS in its discount rate from 7.75% to 7.50%. It is unknown at this time if the impact of the PERS cost increase will be spread over a two year fiscal cycle (2012-13 & 2013-14). Staff has anticipated that all of the impact will be in the 2012-13 fiscal year. Once PERS makes their final determination, staff will adjust the budget accordingly. Beginning in the 2014-15 fiscal year, as the economy returns to a more "normal" environment, current budget projections for 2014-15 include modest increases for non-wage and wage components.

Staff will need to achieve additional operating efficiencies and/or changes to business practices in the amount of \$1.8M to balance the 2013-15 two year operating budget in addition to those that will be proposed to balance the upcoming 2012-13 budget year.

Tonight is additionally an early opportunity for Council to note areas of interest in either budget reduction or budget reallocation.

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:


LeRoy J. Jackson
City Manager

