

COUNCIL MEETING OF  
MAY 8, 2012

**SUPPLEMENTARY MATERIAL**

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

Members of the Council:

Subject: Finance – Supplementary Material to Item 13A

Attached is the revised Attachment A contained in the City Manager's Budget Message, page vii, of the proposed revisions to the 2<sup>nd</sup> year of the 2011-13 operating budget book.

Under **Approved Adjustments**, the correct total is **-\$190,000**. Also, under **Continue Past Budgetary Policy**, the second line should have read: Maintain shift of gas tax revenue from capital projects to operations. We apologize for the inconvenience.

Respectfully submitted,



Eric E. Tsao  
Finance Director

CONCUR:

  
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LeRoy J. Jackson  
City Manager

Attachment: City Manager's Budget Message



Council Meeting of  
May 8, 2012

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

Members of the Council:

The City Manager respectfully transmits his proposed budget amendments for the 2012-13 fiscal year, the 2<sup>nd</sup> year of the 2011-13 Two-Year Operating Budget, originally adopted in June 2011. The proposal before you is a reflection of City policies and goals and is consistent with the City's Strategic Plan. Actions taken by this Council and prior Councils have allowed the City to effectively manage and balance budgets throughout these difficult times. The budget as proposed is balanced. As with all budget proposals by the City Manager, this document now becomes the City Council's and may be revised and amended as directed by Your Honorable Body.

It appears that the "Great Recession", as it has been referred to, may be behind us. The "Great Recession" technically ended in June 2009, eighteen months after it began in December 2007. The economy in the United States continues to improve as reflected by many economic indicators: growth in retail sales, increase in hotel room bookings, rebound in the stock markets to a four year high, and improvements in the job market and unemployment rate.

Sales tax and Occupancy tax revenues are recovering. Sales tax revenues have grown 5% this year and by 2.5% last year. Occupancy taxes have grown by about 10% a year over the same time period. Utility Users' Tax appears to be stabilizing and Property Tax is within budget projections and is least affected by the ups and downs of the economy. With the exception of property taxes, these major revenues still have a way to go to get back to the levels of the 2007-08 fiscal year.

Anticipated challenges include concerns about unemployment and the global economy as it continues to slow any momentum of economic growth here domestically. Unemployment, though improving, continues to be 8.3% nationwide and continues to be double digits in California, far from ideal. The private sector job activity is positive and encouraging; however, public sector employment continues to decrease as State and local governments deal with budget deficits. The world economy continues to be of concern. The possibility of insolvency from some European countries and the potential disruption of the oil supply from the Middle East are making US markets "jittery" and causing oil prices to rise dramatically. Unleaded fuel prices for Californians have risen over the last two years from \$3.09 a gallon to \$4.34 a gallon. The higher cost of fuel reduces discretionary income for consumers and causes inflation concerns as businesses begin passing these costs on to their customers.

As local governments are struggling to re-balance their budgets due to revenue shortfalls caused by the recession, many cities have the additional burden of dealing with the budget shortfalls caused by the elimination of Redevelopment Agencies (RDA), which is not the case for Torrance because the City did not rely on RDA funds to supplement the general fund unlike other cities. Nevertheless, the loss of Redevelopment as a tool to revitalize areas of the City which are in need of economic assistance will severely limit the City's ability to stimulate growth in those underperforming areas. This loss will be primarily noticed in the "Old Downtown" and eastside industrial portions of the City. In addition, the loss of Redevelopment will limit our ability to fund affordable housing projects to

meet housing demands. Staff will explore ways to address these issues by pursuing grant opportunities and building public/private partnerships with stakeholders in the area.

### **General Fund Revenues and Budgetary Concerns**

#### **State Budget**

The State has a current budget shortfall of about \$10 to \$12 billion, about the same deficit this time last year. While most of the City's major revenue sources from the State have been protected by voter approved legislation, many of the budget solutions are putting pressure on local resources. In particular, Vehicle License Fee revenue of \$530,000 is proposed to be taken back by the State and AB109, the Criminal Justice Realignment, shifts the responsibility of incarcerating "low-risk" inmates from the State to the County and ultimately to the cities. As the State continues to find budget solutions, it is expected that it will continue to shift programs to the local level which may or may not be fully funded.

<b>January Unemployment Rate</b>	<b>2012</b>	<b>2011</b>
Federal Gov	8.3%	8.9%
State of California	10.9	12.2
Los Angeles County	11.8	12.3
Carson	12.2	12.6
Gardena	11.3	11.5
Glendale	10.5	10.7
Hawthorne	15.6	15.9
Inglewood	15.0	15.3
Santa Monica	10.0	10.2
Torrance	6.0	6.2

#### **State Retirement (PERS) Rate Hike**

In January 2012, the California Public Employees Retirement System (PERS) board approved a decrease to their actuarial assumption for investment by ¼%, from 7.75% to 7.50%. This reduction in investment returns will cause an increase in the City's contribution beginning in the 2013-14 fiscal year of about \$2 million: \$1.1M for Police, \$420K for Fire and \$500K for Miscellaneous employees. PERS has an option to "smooth" the rate increase over two years to mitigate the impact on 2013-14 fiscal year. This option essentially decreases the increase by \$750,000 for the 2013-14 year but increases the rate by \$125,000 a year thereafter.

#### **Budget Balancing**

The 2011-12 fiscal year relied on certain adjustments and modifications, some of the highlights are listed below:

- New employees picking up the cost for the Employee Paid Member Contributions (EMPC) 9% for Police and Fire and 7% for Miscellaneous Employees
  - Meet and confer process completed with all labor groups
  - Annual savings for 2011-12 – \$121,000
  - Savings grow by \$240,000 annually as new employees are hired
- Human Resources Restructuring - \$115,000 savings – Expanding the scope of the Civil Service Division (adding 1.5 Personnel Technicians), deleting 1.0 Human Resources Director, and transferring Risk Management from Human Resources to the Finance Department
- Energy savings capital projects – goal \$395,000
  - Annual savings to date - \$111,000 reduced from department budgets
  - Pending projects
    - Lighting Upgrades (\$130,000 expected savings) estimated completion July, 2012
    - Water Conservation/Irrigation Controls Upgrade (\$130,000 expected savings) estimated completion October, 2012

- Renewable Energy/Pool Solar Water Heating (\$13,000 expected savings) estimated completion October 2012
- HVAC Replacements (\$13,000 expected savings) estimated completion in Fall of 2012
- Reduction of Hazardous Material Premiums in Fire – 2009/10 FY – Reassign fire fighters (12) from Hazardous Materials Crews to Suppression Crews through attrition. Currently carrying 5 positions (\$96,000). Initial cost \$230,000 to carry 12 positions.

**The City Manager has recommended and the Council has approved the following adjustments to the 2012-13 fiscal year:**

- Preserve **one** Police Officer position that was grant funded through July 2012 to an ongoing position through an additional expenditure of \$200,000.

*Implementation of Operational Efficiencies and Changes to Business Practices*

- Cellular telephone restructuring of contracts - \$70,000 savings
- Reallocation of personnel in Library Division, adding 5.0 full-time positions and reducing 12.5 part-time positions - \$115,000 savings
- Parks Services shift schedule change (weekend work scheduling to reduce overtime) - \$50,000 savings
- Transferring community outreach programs to Cable - \$155,000 savings to General Fund

In addition, the City Manager continues to recommend that the City Council concur in extending certain methods used in the previous fiscal year to bridge the recovering revenue needs for this coming fiscal year:

- 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 - \$200,000
- Maintain shift of the annual interest earnings from the Tax Revenue Anticipation Notes (TRAN) program from capital projects to operations (earnings are partially derived from the prepayment of pension expense) - \$500,000

The City Manager also recommends the use of the Economic Anomaly Reserve to continue to offset the State's diversion of City anticipated revenues.

- The taking of Vehicle License Fees by the State last July is currently being litigated by the League of California Cities under the contention that the State violated voter approved Proposition 1A with its action - \$530,000 (Current Economic Anomaly balance \$10.1 million)

Through these modifications the 2012-13 budget is balanced. However, the City Manager has discussed with the City Council the need for specific additions to the budget. Some of the adjustments are offset through external funding; however, other adjustments will require offsets to the budget.

These include the following budget enhancements:

- The addition of police officer positions to addresses the increased personnel needs required of the service needs imposed by the State on the City through the prison release realignment
  - Recommending adding one Police Officer July 2012 and an additional one Police Officer January 2013 - \$300,000 this fiscal year
  - Continue the funding decision for two additional Police Officers to the 2013-15 Two Year budget cycle
- Provide \$25,000 to be used for marketing efforts on a performance based contract related to our Community Services and classes and for Cultural Arts Center room rental to increase enrollment and increase revenues.
- Staffing for voter approved Measure R Capital Projects:
  - \$45 million of Measure R funding over the next 5 years
  - Approved projects include: Transit Center, improvements to PCH/Hawthorne and Maple/Sepulveda, intersection improvements to Crenshaw/405
  - Add 2.0 Assistant Engineers and 1.0 Public Works Inspector/Capital Projects (\$385,000) reimbursed from Measure R funding
- Additional budget for adding High Occupancy Vehicle service to Line #1 and #3 for Transit - \$1,550,000
  - Fully funded from federal funds
- Defer this issue to follow up items – no action at this time 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
  - HIP program is CDBG eligible and would recommend using CDBG funds

The City Manager would offset these expenditure increases by the following:

- Use of additional Cable funds \$47,000 to offset general fund expenditures
  - Cable to no longer cover community events (Torrance Symphony, ECC sports, election forums, open mic night, etc.)
- Using Proposition C funds, 1/2 cent sales tax measure approved by Los Angeles County to benefit public transportation, in the amount of \$275,000 for street maintenance, in lieu of General Fund, reducing the amount of funds available for capital projects.

The following items are recommended to be discussed during the 2013-15 Two-year budget cycle:

- Staffing set aside for maintenance of potential acquired sport fields (court land)
  - Staff estimates that the design and construction for this project will be between 9-12 months. Staff estimates the cost to maintain the fields will be approximately \$90,000 annually.
- Strategic Plan Three-Year Update Cycle - \$135,000 (one-time)
- Resources for outreach to a second Sister City - \$42,200
  - Staff will research economic benefits

- 2014 Rose Float (funding requirement in 2012-13)
  - 2013 Rose Float was funded through a generous outside contribution and fund raising events continue with the expectation the 2014 float will be funded.

As the City continues to face immediate budget shortfalls, it is prudent to avoid short-term solutions that do not address the City's long-term needs. The second year of the current two-year budget plan before you addresses the immediate budget shortfall for the 2012-13 fiscal year. A summary of status of the Enterprise Fund is included in attachment B.

At this time, staff is recommending limited budget changes to the 2012-13 fiscal year as it is difficult to foreshadow future shortfalls given the volatile budgetary climate. While the economy is improving, the State's budget problems will continue to adversely affect local government finances, as well as post election Federal fiscal policies and world events (bond default, embargos, military actions, etc.). Ultimately, as the economy stabilizes and the economic recovery continues and revenues continue to grow, it is hoped that this would limit any further reduction and that some of the reductions that have occurred over the last two years can be gradually restored.

It will also provide additional time for staff to achieve additional operating efficiencies and/or changes to business practices to balance the 2013-15 two-year operating budget. The City Manager recommends continuing with current budget policies by only filling critical positions and carefully monitoring all department expenditures until the 1<sup>st</sup> Quarter Budget Review in November 2012. Staff understands the hardship this causes on departmental operations but deems this necessary should anticipated economy improvements not meet expectations.

Some of the solutions recommended, at this time, to mitigate the budget shortfalls in the out-years would be:

- Continue use of Gas Tax revenues for operations - \$200,000
- Continue use of Tax Revenue Anticipation Notes for operations instead of funding capital - \$500,000
- Explore the option to smooth PERS policy change to reduce by ¼% in earnings assumption - \$750,000 (2013-14); but would increase costs by \$125,000 (2014-15+)
- Use the net proceeds from Cooperative exchanges between cities of Proposition A & C funds for operations instead of funding capital - \$200,000

#### **Uncertain Future: FY 2014 & Beyond**

While we plan over a five year horizon, the high level of uncertainty with regard to the State budget and the rate of any economic recovery limit the ability of accurate projections. Consequently, staff believes that reserves are one mechanism to help deal with the uncertainties that face us in the upcoming years. The City continues to draw on reserves sparingly and supplement the reserves when possible.

#### **Reserves**

The City's current funding policy for the Economic Anomaly Fund is to have up to 10% of the combined General Fund, Parks & Recreation Fund, Cultural Arts Center Fund, Animal Control Fund and the Emergency Medical Service Fund net adopted appropriation level or about \$17.4 million. This fund has a current balance of \$10.1 million. In addition, the City has an additional \$4.2 million in the Reserve for Benefit Rate Mitigation for a total of \$15.3 million.

These reserves provide some flexibility to smooth out economic swings, buffer the loss of State and Federal revenues, and to support City operations during emergencies such as natural disasters.

The budget before you reflects a continuing effort of using economic resources of the City to address the primary needs of the community. It preserves necessary reserves and lives within current revenue sources and continues to use one-time funding for one-time budget modification requests, capital outlay and capital projects.

The Council should be commended for their fiscally conservative approach and for making difficult budgetary decisions, especially during the last four fiscal years. The fiscally conservative approach by the Council is reflected in the City's investment grade "A" bond rating.

The budget, as submitted, is balanced for the 2012-13 fiscal year and provides options to balance the budget throughout the five year forecast. The five year projection reflects revenues growing at rate of 3.0% to 3.5% annually, 3.5% in 2013-14, 3.2% in 2014-15 and about 3.3% for the remaining years of the forecast. Beginning in the 2014-15 fiscal year, as the economy returns to a more "normal" environment, current budget projections include modest increases for non-wage and wage components.

The budget modifications included in this budget are recommended for approval by the City Manager. The budget document now before you, with the concurrence of the Council, may be revised and when revised will become the City's operating budget for the 2012-13 fiscal year. Please note that any additional funding requirements would require offsets to the other areas of the budget.

The City Council is requested to take input from the public, review the recommended budget and concur with or modify this document. Any revisions requested will be incorporated into the City's operating budget for the 2012-13 fiscal year. No formal action is required until after the closing of the 2<sup>nd</sup> public hearing/budget workshop on May 15.

Respectfully submitted,



LeRoy J. Jackson  
City Manager

Attachments:

- A) Recommended Budget Plan Summary
- B) Enterprise Funds Summary

RECOMMENDED BUDGET PLAN SUMMARY

	Amount	
	General Fund	Other Funds
<b>APPROVED ADJUSTMENTS</b>		
Preservation of 1.0 Police Officer (grant funded)	\$200,000	
Cellular Phone Restructuring of Contracts	-\$70,000	
Library Personnel Realignment	-\$115,000	
Park Services Shift Schedule Change	-\$50,000	
Transferring community outreach programs to Cable	-\$155,000	
<b>Total</b>	<b>-\$190,000</b>	
<b>CONTINUE PAST BUDGETARY POLICY</b>		
Defer funding of post employment benefits	-\$1,000,000	
Maintain shift of gas tax revenue from capital projects to operations	-\$200,000	
Maintain annual interest earnings from Tax Revenue Anticipation Notes (TRAN) from capital projects to operations	-\$500,000	
<b>Total</b>	<b>-\$1,700,000</b>	
<b>OFFSET THE STATE'S DIVERSION OF CITY REVENUES</b>		
Use Economic Anomaly Reserve to offset State diversion of City anticipated revenue	-\$530,000	
<b>BUDGET ENHANCEMENTS</b>		
Additional Police Officer positions for State's prison release realignment		
- 1.0 Police Officer (July 2012)	\$200,000	
- 1.0 Police Officer (Jan 2013)	\$100,000	
- Continue funding decision to add 2.0 Police Officers in the 2013-15 budget	\$25,000	\$415,000
Provide performance based contract for marketing efforts for Community Services and the Cultural Arts Center		
Staffing for voter approved Measure R Capital Projects - 2.0 Assistant Engineers, 1.0 Public Works Inspector/Capital Projects, and materials		
Additional budget for adding High Occupancy Vehicle service to Line #1 and #3 for Transit		\$1,550,000
<b>Total</b>	<b>\$325,000</b>	<b>\$1,965,000</b>
<b>OFFSET FOR BUDGET ENHANCEMENTS</b>		
Use of additional Cable funds	-\$47,000	
Use of Proposition C funds	-\$275,000	
<b>Total</b>	<b>-\$322,000</b>	
<b>ITEMS RECOMMENDED FOR DISCUSSION DURING THE 2013-15 BUDGET</b>		
Staffing set aside for maintenance of potential acquired sport fields (court land)	\$90,000	
Strategic Plan Three-Year Update Cycle	\$135,000	
Resources for outreach to a second Sister City	\$42,200	
2014 Rose Float	-	
<b>SOME SOLUTIONS RECOMMENDED TO MITIGATE BUDGET SHORTFALL IN OUT YEARS</b>		
Continue use of Gas Tax revenues for operations - \$200,000	-\$200,000	
Continue to maintain annual interest earnings from Tax Revenue Anticipation Notes (TRAN) from capital projects to operations	-\$500,000	
Explore the option to smooth PERS policy change to reduce by 1/4% in earnings assumption	-\$750,000	
Use the net proceeds from Cooperative exchanges between cities of Proposition A & C funds for operations instead of funding capital	-\$200,000	
<b>Total</b>	<b>-\$1,650,000</b>	

## ATTACHMENT B

**Enterprise Funds****Airport Fund**

Based on the five year forecast, the Airport Fund is projected to be stable and to continue to grow as consumer spending increases. Many of the City's lease land agreements, which are located on airport property, are operated by automobile dealerships. In recent months, auto sales have begun to increase both nationally and in the local economy.

**Sanitation Fund**

It is projected revenues will increase as the new rates were approved in January 2012 and the budgetary outlook for the fund is good. The city-wide green waste program is well underway and expected to be completed by Fall 2012.

**Sewer Fund**

The fund, though balanced, faces increasingly complex set of challenges in managing storm water and urban runoff pollution due to a combination of growth and regulatory programs, as well as costs for capacity improvements.

**Water Fund**

The Water Revenue Fund continues to improve as additional revenues are derived from rate adjustments approved by the City Council in February 2011. The fund continues to work towards diversifying our supply of water, reducing our dependence on expensive imported water. Torrance Municipal Water rates are expected to remain among the lowest in the area.

**Transit Fund**

The budget outlook for Transit is favorable, with concerns over the volatile and increasing cost of fuel and the impact of State and Federal legislation. Transit will be implementing two new expansion services during FY 2012-13. The Rapid Bus program will enhance our Line #3 and the "110 Freeway Express Lanes" project will increase the service on Line #1.