

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

Members of the Council:

Subject: 1st Quarter 2008-09 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 2008-09 Budget Review Report and the City Treasurer's Investment Report
- Concur with staff's recommendation for the capital project requests .

BACKGROUND/ANALYSIS

On Tuesday, November 25, the Finance and Governmental Operations Committee heard a presentation from staff on the First Quarter 2008-09 Budget Review.

The Committee voted and accepted unanimously the First Quarter 2008-09 Budget Review Report, the City Treasurer's Investment Report, and the program modifications.

At the Committee meeting the following program modifications were discussed (attachment C):

Capital Project Requests:

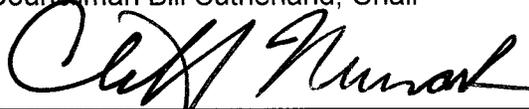
- City Treasurer/Police – approve the transfer of unclaimed funds to support the expansion of the Community Affairs Division at the Police Department
- Community Services – approve the refurbishment of the Torrance Park restroom building

Respectfully submitted,

Finance and Governmental Operations Committee



Councilman Bill Sutherland, Chair



Councilman Cliff Numark, Member



Councilwoman Susan Rhilinger, Member

Attachments:

- Executive Summary
- City Treasurer's Investment Report
- Program Modifications

Committee Meeting of
November 25, 2008

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

Members of the Committee:

Subject: First Quarter 2008- 09 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 2008-09 Budget Review Report
- Accept the City Treasurer's Investment Report
- Concur with staff's recommendation for the capital project requests

EXECUTIVE SUMMARY

Based on the revenues received to date of 18.8% of budget, as compared to 17.8% for the 2007-08 fiscal year, expenditures for all departments are well within expenditure limits. The budgetary outlook for the City at first quarter is stable.

Even though the revenues collected to date is slightly ahead of last year, this trend is not expected to continue through the remainder of this fiscal year. Sales tax revenues (the General Fund's largest revenue source) received to date only represents activity from April 2008 through June 2008. Sales tax activity for July 2008 through August 2008 will not be known until December. And the first installment of property tax, the 3rd largest revenue source for the General Fund, will also not be received until December.

Given the direction the economy is heading, since October 2008, it is very probable that City revenues that are sensitive to the economy will decline, such as sales tax, occupancy tax, construction tax, etc. The City Manager is formulating contingency plans should the budget need rebalancing mid year.

Technically, the nation may not be in a recession as defined by the National Bureau of Economic Research (NBER) but, for all intent and purposes, we are in one. The Dow Jones Industrial average has dropped over 37% since July 2007 and is below 8,000. Unemployment

A Snapshot of Torrance

Population: 148,970
Peak Daytime Population (2 p.m.): 203,011
Area: 21 Square Miles
1453 Full-time Employees
6 Fire Stations
1 Police Station, 1 Police Substation &
3 Police Community Centers
246 Sworn Police Employees
157 Sworn Fire Employees
6 Public Libraries
90,000 Street Trees
550 Miles of Sidewalks
46 Parks & Recreation Amenities

for the Nation, State and Los Angeles County are 6.0%, 7.7% and 7.8% (Sept 08) respectively. Employment is a key component to the economy since consumer spending drives the U.S. economy. The last time unemployment was this high was in 1992 when the unemployment rate hit 7.8% and again during 1980-1984 and in 1975. The unemployment rate for Torrance is 3.8%, well below the National, State, and County of Los Angeles averages. Neighboring cities such as 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.

September 2008 Unemployment Rate	
Los Angeles County	7.8%
Carson	7.9
Gardena	7.3
Glendale	6.8
Inglewood	9.9
Santa Monica	6.4
Torrance	3.8

The City's tax and economic base is diverse which provides some insulation in economic downturns as well as economic booms. Property tax and the City's Utility Users' Tax, the General Fund's 2nd largest revenue source, are not as sensitive to the economy as sales taxes.

The County's property tax roll has the assessed value of property in the City to be \$23.4 billion as of January 2008, an increase of \$1.2 billion or about 5.4%. The current budget forecasts

Agency	Median Price September 2008	Median Price September 2007	% Change
Los Angeles County	\$360,000	\$530,000	-32%
Carson	360,000	495,000	-27
Gardena	396,250	460,000	-14
Inglewood	299,000	435,000	-31
Santa Monica	863,000	849,000	2
Torrance	481,000	590,000	-18

property tax to grow by 3.3% over last year. The City is experiencing a decline in market value on properties. Residential median home prices have declined by about 18% (Sept 2008 – Sept 2007) to \$481,000 from \$590,000. Please note that there is a difference between assessed value and home prices or market value.

The average assessed value for a home in the City is about \$350,000.

Zip Code	Median Price September 2008	% Change Year over Year
90501	\$500,000	-19.4%
90503	660,000	-14.2
90504	490,000	-29.6
90505	700,000	-10.7
90277	995,000	-3.6

Utility Users' Tax (UUT) is another revenue source which is less sensitive to the economy. As of first quarter, actual

revenues received are about \$860,000 ahead of 1st quarter 2007. The year over year increase was primarily derived from natural gas. The increase is not surprising due to the rising cost of natural gas, which trends closely with the price of oil. Oil has fallen below \$70 which will affect this revenue stream.

Sales tax revenue generates approximately \$45 million annually and is the City's general fund largest revenue source. Automobile sales dropped almost

Retail Sales Top 5 Sales Tax Producers by Economic Segment (by 000's)				
Description	Y.E. 06/30/08	Y.E. 06/30/07	Variance	%
Auto Sales New	\$ 6,878	\$ 7,713	\$ (835)	-10.8 %
Department Stores	\$ 4,922	\$ 5,103	\$ (181)	-3.6 %
Restaurants	\$ 3,707	\$ 3,595	\$ 112	3.1 %
Misc Retail	\$ 3,450	\$ 3,477	\$ (27)	.8 %
Leasing	\$ 2,549	\$ 2,379	\$ 170	7.1 %

11% from June 2007 to June 2008 or about \$835,000. Auto sales will most likely keep trending downward until consumer confidence returns. Staff is awaiting sales tax data for the July – September quarter to be released in December before updating tax revenue projections. Actual sales tax received decreased by 2% last fiscal year and no growth was projected in 2008-09.

State of California

The State of California is facing an \$11.2 billion deficit this fiscal year and if not addressed could balloon to over \$27 billion over the next 20 months. The inability of the State to resolve their previous budget deficit in stable economic times, now are struggling with huge declines in the stock markets, declining consumer spending, high unemployment rates, home foreclosures and declining home prices. The legislative leaders are in special session to deal with the budget deficit. Staff may know more after the scheduled November 23 vote.

Fiscal Year 2007-08

Year-end operations for the General Fund, fiscal year ended June 30, 2008, generated available carry-over of approximately \$9.4 million prior to commitments. The carry-over was generated from a positive revenue variance of \$2.9 million caused primarily from higher than projected property tax revenues, strong construction activity, and better than expected investment portfolio earnings.

Approximately \$6.5 million was generated from expenditures of which \$3.3 million was due primarily from position vacancies and another \$3.2 million from unused materials, supplies and professional services budgets. The General Fund, albeit the largest fund in the City, is only one of fifty five funds the City operates. The chart provides a recap for several of the enterprise funds which all were within budget.

The 2007-08 carryover amount after prior commitments totaled \$6,026,501. Year end carryover is vital and may be the only source of funds for facilities, equipment and automation projects and to a lesser degree infrastructure projects.

Fiscal Year ended June 30, 2008			Variance
	Sources	Uses	Favorable (Unfavorable)
General Fund	\$ 181,511,894	\$ 175,485,393	\$6,026,501
Enterprise Funds:			
Airport	11,957,346	10,529,078	1,428,268
Transit	21,712,433	21,171,211	541,222
Water	26,724,052	22,235,617	4,488,435
Emergency Medical	8,037,581	8,031,138	6,443
Sanitation	11,093,202	10,944,244	148,958
Cultural Arts	2,194,284	1,969,388	224,896
Sewer	3,292,999	1,815,029	1,477,970
Parks & Recreation	7,618,780	7,487,232	131,548
Internal Services			
Fleet -Operation	6,858,908	4,519,179	2,339,729
Self Insurance	4,286,566	4,965,155	(678,985)

Due to the uncertainties of the State budget and the economy, staff is recommending that the allocation of year end carryover be delayed until January 2009. In December, the City will receive final sales tax numbers for April through June 2008 and property tax collections through December 10. In early to mid January, the City will know its portion of the Sales Tax and Vehicle License Fee Triple Flip monies. Once the aforementioned revenues are received, coupled with the additional months of utility users' and occupancy taxes, staff will be able to

better forecast the budget outlook for the current fiscal year as well as the City's five year forecast.

Much of the discussion has been about revenues; however, there are two expenditure areas which warrant some discussion. During the year, gas prices reached well over \$4 per gallon. On November 20, 2008 the price of crude oil fell below \$50 per barrel from a high of \$145. The decline in crude oil prices will have a mixed effect on the City's budget. The positive impact on the City's budget is the lower cost of fuel for the City's fleet. However, the lower cost will affect the amount the City collects in sales tax on gasoline and diesel fuel and utility users' tax collected in natural gas will also decline since the spot market for natural gas trends closely to spot market for oil.

As reported in the October 28, 2008 Los Angeles Times, CalPERS suffered significant losses in the Wall Street market by losing nearly 23% or \$54 billion of their investment portfolio. The City does expect higher pension rates beginning in fiscal year 2009 and forward.

Overall, the City faces many budgetary challenges over the next several years. Even though as of September 2008 all revenues are received as projected, the trend is not likely to continue through the remainder of the fiscal year. Staff is closely monitoring payments from the State of California, business closures, sales tax activity and in particular auto sales and the rolling effect on the City's land leases at the airport. In addition as a cautionary move, the City Manager, short of a hiring freeze, is evaluating all personnel requisitions and appointments as well as deferring expenditures where feasible.

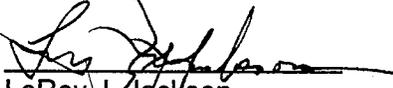
Staff is planning to return in January 2009 with an additional report on the budget when more revenue data is known as well as the status on the State budget and economy.

Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:



LeRoy J. Jackson
City Manager

November 17, 2008

COMMITTEE MEETING
November 25, 2008

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, an 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, 2008 total Pooled Funds (Investment Portfolio) was \$176.7 million

As of June 30, 2008 the total Restricted Funds was \$131.6 million made up of the following categories:

a. Debt issue proceed	\$ 10.0 million
b. Deferred Compensation	
1) 457	\$ 113.5 million
2) 401(a)	\$ 4.4 million
c. Retirement Health Savings plan	\$ 3.7 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 \$2.0 million and the effective rate of return equaled 4.44%.

The restricted funds, made up of the Debt issue proceeds, Deferred Compensation funds and the Retirement Health Savings Plan 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.

NOTE: The Deferred Compensation Plans and the Retirement Health Savings Plan are held in Trust for the benefit of the Participant or their Beneficiaries and is not an asset of the City of Torrance.

Investment Forecast

The Federal Reserve Board has made no changes to the Fed Fund rate which remains at 2.0%. What does this mean to rates across the short and intermediate curve? We would expect to see lower rates along the yield curve; however the decrease should be most noticeable on the short end of the curve.

NOTE: The FOMC met in October and lowered the Fed Fund Rate by 50 basis points to 1%.

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

Over the last few months Freddie (FHLMC) and Fannie Mae (FNMA) have experienced financial difficulties that have affected their ability to raise capital to pay preferred stock dividends. Since the Federal Government made a commitment to stand behind the Government Sponsored Enterprises (GSE), it has helped to restore confidence in the GSEs and prevent mandatory receivership. In addition, we have seen financial disarray in the corporate world. However, again due to the uncertainty of the financial market, the Federal Government has packaged a proposal that would infuse the market with additional capital both foreign and domestic. With the passage of the \$785 billion package by Congress it allows the Federal Government to be a player in the Corporate world by buying back discount commercial paper and discount notes from Banking and Investment institutions.

The City holds securities in both agencies and corporate notes. I have evaluated all of our holdings in both agencies and corporate notes and made decisions to liquidate some holdings.

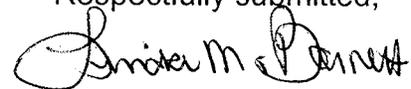
Beginning in mid-December the investment portfolio should begin to increase due to the collection of Property tax, business license fees and occupancy tax. Currently, the interest rate is lower and I expect to see a decline in our overall rate of return by mid-year. Due to all the variables facing our economy, our strategy will be to stay short, evaluate and monitor our current holdings in corporate notes and decide to liquidate holdings that are determined to be at risk.

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 1st Quarter Report.

Respectfully submitted,



Linda M. Barnett
City Treasurer

CONCUR:



LeRoy J. Jackson
Investment Committee Member

Committee Meeting of
November 25, 2008

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

SUBJECT: City Treasurer and Police – Transfer of unclaimed funds in the amount of \$51,679.00 from the Trust and Agency Fund to support the expansion the Community Affairs Division at the Police Department. Expenditure: \$51,679.00

RECOMMENDATION

The City Treasurer and Chief of Police recommend that the City Council approve the transfer of \$51,679 from the Trust and Agency Fund to finance the remodel of office spaces at the Police Department in support of the expansion of the Community Affairs Division.

FUNDING

Funds are available in the City of Torrance Trust and Agency Fund.

BACKGROUND

The Police Department, in furthering its Focus Based Policing philosophy, is in the process of expanding its Community Affairs Division and finds it necessary to remodel office spaces and relocate the Department's Information and Technology Section (ITS). ITS will be moved to office spaces that previously housed the Identification Detail, thereby providing for the physical expansion of its old space for the Community Affairs Division. The Identification Detail office will be remodeled to facilitate the relocation of ITS.

ANALYSIS

Government Code § 50050 states in part:

“Except as otherwise provided by law, money, excluding restitution to victims, that is not the property of a local agency that remains unclaimed in its treasury or in the official custody of its officers for three years is the property of the local agency

after notice if not claimed or if no verified complaint is filed and served. At any time after the expiration of the three-year period, the treasurer of the local agency may cause a notice to be published once a week for two successive weeks in a newspaper of general circulation published in the local agency."

The funds in question have been in the possession of the Department well in excess of three years. Attempts to locate an owner have proven fruitless. Public notice was published on the 23rd and 30th of March, 2008, respectively, and no claims of ownership have been filed. As of May 8, 2008, the money became the property of the City. Pursuant to Government Code § 50053, legislative action is needed to transfer the funds.

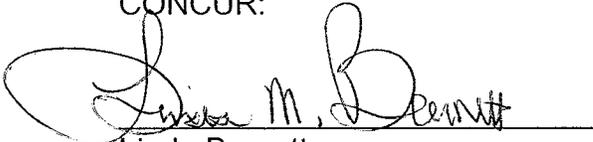
Respectfully submitted,

John J. Neu
Chief of Police



By Lieutenant Geoffrey Rizzo
Services Division Commander

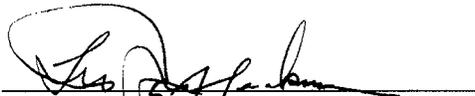
CONCUR:



Linda Barnett
City Treasurer



John J. Neu
Chief of Police



LeRoy J. Jackson
City Manager

City of Torrance FEAP Project Request Form

Type of Project:

Equipment Automation Infrastructure Facilities Other

Requesting Department:

Police

Managing Department: Police**Project Leader: Lt. G. Rizzo****Project Location:**

Police Department

Project Title:

Community Affairs Division

Project Start Date:

December 10, 2008

Estimated Completion Date:

March 31, 2009

Description:

Relocation and remodel of office space to support the expansion of the Community Affairs Division

Justification:

The Police Department is in the process of creating a Community Affairs Division in support of Focus Based Policing. The Community Affairs Division will be formed by reallocating existing personnel and resources. In order to accommodate the new Division as a cohesive functional group, the Department will need to relocate and remodel three office spaces in the Police facility.

Impact of Non-Approval:

Non-approval will result in a significant delay in forming the Community Affairs Division. Focus Based Policing programs could not be carried out as planned. Assigned employees would have to work in poorly configured office spaces that are not located together.

Other Alternatives Considered:

Purchase of portable offices.

Project Costs

Estimated Project Implementation Cost (ONE TIME COSTS)			Comments:
	Within Dept	Support Dept.	
Personnel Requirements # of Positions			
Labor Costs:	\$	\$	
Per Comp Detail Report-Total			
Date of Comp Detail Report <u>MM/DD/YY</u>			
Equipment	\$	\$	
Materials	\$ 51,679	\$	
Professional and contract services	\$	\$	
Other:	\$	\$	
Other:	\$	\$	
TOTAL	\$ 51,679	\$	

**Estimated Annual Ongoing Operating and Maintenance Costs
(UPON PROJECT COMPLETION/IMPLEMENTATION)**

Not Applicable

	Within Dept	Support Dept.	Comments:
Personnel Requirements # of positions			
Annual Labor Costs:	\$	\$	
Per Comp Detail Report-Total			
Date of Comp Detail Report <u>MM/DD/YY</u>			
Materials	\$	\$	
Equipment	\$	\$	
Professional and contract services	\$	\$	
Other:	\$	\$	
Other:	\$	\$	
Other	\$	\$	
TOTAL	\$	\$	

Project Time Line

Fiscal Year Ending June 30

<u>Description</u>	2008-09	2009-10	2010-11	2011-12	2012-13
Survey/Design					
Plans/Specifications					
Purchase/Construction	X				
Other: _____					

Project Financing						
Fiscal Year Ending June 30						
<i>Financing Source</i>	2008-09	2009-10	2010-11	2011-12	2012-13	<i>TOTAL</i>
Trust and Agency Fund (Police Department Property & Evidence Unclaimed Money)	\$51,679					\$51,679
TOTAL COST	\$51,679					\$51,679

Requested by:	
Department Head	Date

Department Priority # :	High	Medium	Low
	X		

Type an X in the box if project is:
High, Medium or Low

Committee Meeting of
November 25, 2008

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

Members of the Council:

**SUBJECT: Community Services – Refurbishment of the Torrance Park
Restroom Building.**

Expenditure: \$50,500

RECOMMENDATION

Recommendation of the Community Services Director that City Council appropriate \$50,500 from General Fund Carryover to fully fund the Refurbishment of the Torrance Park Restroom.

Funding

Funding is available from the General Fund Carryover.

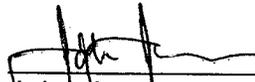
BACKGROUND/ANALYSIS

On October 31, 2007, the east restroom building in Torrance Park was damaged by vandals who set fire to the building. The fire caused major damage to the men's restroom and the wooden roof of the building, with minor damage done to the utility room that contains both the plumbing and electrical connections.

In May, 2006, Council approved the use of \$50,000 from the Community Services Operating Budget and \$80,000 from the Self Insurance Fund, for a total project budget of \$130,000. The design phase of this project is complete, and bids have been received for the renovation. As bids returned substantially higher than anticipated, an additional \$50,500 is needed. The new cost for the project is \$180,500, which includes additional contract costs, inspection services, and project management fees.

The City has all risk property insurance subject to exclusions, with a \$100,000 deductible. This coverage is for replacement costs for damaged property. As this project exceeds the \$100,000 deductible, the Risk Manager has filed a claim for those covered expenses that exceed \$100,000.

Respectfully submitted,



John Jones
Community Services Director

CONCUR:



LeROY J. JACKSON
City Manager

FEAP Project Request Form

Type of Project:

Equipment Automation Infrastructure Facilities Other

Requesting Department:

General Services and Community Services

Managing Department: General Services

Project Leader: Jon Landis/Diane Megerdichian
(General Services) Mike Wilson (Community Services)

Project Location: Torrance Park**Project Title:** Refurbishment-Restroom Building-Torrance Park**Project Start Date:** July 2008**Estimated Completion Date:** June 2009**Description:**

Replace vandalized wood/stucco restroom (fire damage) with a new concrete restroom. Includes demolition of building and concrete pad, relocation of electrical (currently electrical running park and field lights are housed in the restroom facility), purchase and installation of new concrete building which includes foundation and grading work.

Justification: Restroom facilities and Recreation equipment check out are not usable, due to fire damage from vandalism. Portable toilet facilities are now in use.

Impact of Non-Approval: One less restroom facility at Torrance Park for the citizens to use.

Other Alternatives Considered: Demolition of restroom without replacement of new restroom facility, would remove the damaged building from property. However electrical that runs the field and park lights currently housed in the damaged restroom would need permanent relocation and proper encasement to protect against vandalism and weather.

Project Costs

Estimated Project Implementation Cost (ONE TIME COSTS)			
	Within Dept	Support Dept.	Comments:
Personnel Requirements			
# of Positions			
Labor Costs:	\$	\$	
Per Comp Detail Report-Total			
Date of Comp Detail Report <u>MM/DD/YY</u>			
Equipment	\$	\$	
Materials	\$	\$	
Professional and contract services	\$ 149,436	\$	Construction
Other: Design & Other Services	\$	\$ 16,832	Including inspections
Other: Project Management	\$	\$ 14,232	
TOTAL	\$ 149,436	\$ 31,064	

Estimated Annual Ongoing Operating and Maintenance Costs (UPON PROJECT COMPLETION/IMPLEMENTATION)			
<input checked="" type="checkbox"/> Not Applicable			
	Within Dept	Support Dept.	Comments:
Personnel Requirements # of positions			
Annual Labor Costs:	\$	\$	
Per Comp Detail Report-Total			
Date of Comp Detail Report <u>MM/DD/YY</u>			
Materials	\$	\$	
Equipment	\$	\$	
Professional and contract services	\$	\$	
Other:	\$	\$	
Other:	\$	\$	
Other	\$	\$	
TOTAL	\$	\$	

Project Time Line	Fiscal Year Ending June 30				
	2008-09	2009-10	2010-11	2011-12	2012-13
<u>Description</u>					
Survey/Design	x				
Plans/Specifications	x				
Purchase/Construction	x				
Other: _____					

Project Financing**17**

Fiscal Year Ending June 30

<i>Financing Source</i>	2008-09	2009-10	2010-11	2011-12	2012-13	<i>TOTAL</i>
General Fund	100,500					100,500
Self Insurance Fund	80,000					80,000
<i>TOTAL COST</i>	180,500					180,500

Requested by: John Jones	
Department Head	Date

Department Priority # :	High	Medium	Low
	x		

Type an X in the box if project is:
High, Medium or Low