

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

Members of the Council:

Subject: Finance & Governmental Operations Committee - 1st Quarter 2008-09 Update

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 Update
- Concur with staff's recommendation for 2007-08 fiscal year end carryover allocation

BACKGROUND/ANALYSIS

On Tuesday, January 27, 2009 the Finance and Governmental Operations Committee heard a presentation from staff on the First Quarter 2008-09 Budget Update.

The Committee voted and accepted unanimously the First Quarter 2008-09 Budget Update Report and Staff's recommendation on the allocation of the 2007-08 General Fund fiscal year-end carryover.

	<u>Reserves as of 1-15-09</u>	<u>Staff Recommendation</u>	<u>Balance</u>	<u>Funding Goal</u>
<u>Category 1: Contingency Reserves</u>				
Economic Anomaly	\$ 10,121,349	\$ -	\$10,121,349	\$17,700,000
Program Contingencies	180,081	519,919	700,000	
<u>Category 2: Specific Purpose Reserves</u>				
Economic Development	990,334	-	990,334	
Balancing Strategies	1,326,525	2,280,263	3,606,788	
Litigation	402,540	97,460	500,000	
Program Innovation	195,433		195,433	
Revolving Nuisance Abatement	80,000		80,000	
Benefit Rate Mitigation	3,108,721		3,108,721	7,100,000
Security Improvements	124,207		124,207	
Proposition A Exchange	971,141	528,859	1,500,000	
Alternate Fuel Vehicles	1,851,564		1,851,564	
Capital Projects	2,400,000	2,600,000	5,000,000	
<u>Category 3: Funding of Liabilities Reserve</u>				
Compensated Absences	1,000,000		1,000,000	
General Liability/ Worker's Compensation	4,325,560		4,325,560	24,900,000
Allocation of Y/E Carryover		\$ 6,026,501		

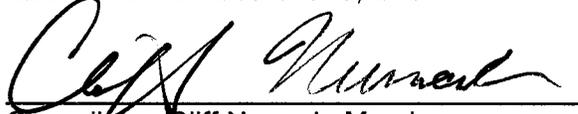
The reserve schedule above list the beginning balances plus the recommended allocation of 2007-08 year end carryover resulting in an adjusted ending balance. The majority of the funds are being recommended to be allocated in the balancing strategies reserve (to be used for future budget balancing options) and the remaining is recommended to be placed in the capital projects reserve for the City's capital needs.

Respectfully submitted,

Finance and Governmental Operations Committee



Councilman Bill Sutherland, Chair



Councilman Cliff Numark, Member



Councilwoman Susan M. Rhilinger, Member

Attachments:

- A. Finance Committee Item dated 1/27/09
- B. First Quarter Update Questions

ATTACHMENT A

Committee Meeting of
January 27, 2009

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

Members of the Committee:

Subject: First Quarter 2008- 09 Update

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 Update
- Concur with staff's recommendation for 2007-08 fiscal year end carryover

EXECUTIVE SUMMARY

On November 25, 2008 at the 1st Quarter 2008-09 Budget Review meeting, staff reported on the state of the City's financial position, including general fund revenue collections, for the first quarter through September 2008. It was reported that revenues collected for the first quarter were slightly better than the amount collected for the same period last fiscal year. Even though actuals for the first quarter were slightly higher (1%) when compared to September 2007, staff stressed that this trend was not expected to continue. Staff reported that major revenues sources such as sales tax and property tax would not be received until mid December and the two triple flip amounts for sales tax and motor vehicle fees would not be received until January. These four revenue sources generate just over 48% of total General Fund revenues. Once these revenues were received, a forecast would be performed to determine if any changes to the current and future year projections should be made.

Having said this, sales tax receipts for the 3rd Quarter (calendar) came in below original budget estimates and receipts in this area will continue to reflect the direction of the economy. The two triple flip amounts received were slightly less than budget, but the annual projected variance is not material. The first major installment of property taxes, which represent 40% of the annual amount, was slightly higher than originally projected.

The financial markets have been in turmoil and on November 20, 2008, the Dow Jones Industrial (DJI) closed at 7,552 down close to 3,300 points from September 30, a drop of 30%. Recently, over the last thirty days the DJI has been trading between 8,000 and 9,000. As reported in the 1st Quarter, the housing market continues to struggle as home prices continue to decline as inventories increase due to the record number of foreclosures.

Housing and energy costs continue to drop and so does the Consumer Price Index (CPI) and the Producers Price Index (PPI). It is important to note that both PPI and CPI had negative growth in November and December.

Index	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
CPI	4.6%	3.7%	3.6%	3.7%	4.1%	6.1%	6.6%	5.7%	5.0%	3.5%	0.6%	-0.6%
PPI	10.1%	9.0%	10.8%	11.4%	13.3%	15.5%	17.6%	16.0%	13.7%	6.9%	-1.1%	-4.1%

The decline in the economy according to many economists will continue well into the next year, which directly impacts the City's five year forecast. The sluggish economy coupled with the possibility of deflation has resulted in the City adjusting its five year forecast where shortfalls exist in the projections in the out years, primarily in fiscal year 2013-14.

In light of the serious downturn in the economy and the continuous decline in retail sales, the following revenue adjustments are being proposed to reflect the actual trend in the economy for fiscal year ending 2009:

Description	Budget	Projected Balance	Surplus/Deficit
Property Taxes	\$ 28,154,100	\$ 28,554,100	\$ 400,000
Property Tax Transfer	600,000	400,000	(200,000)
Sales Tax	32,666,889	29,366,889	(3,300,000)
Sales Tax PSAF	1,364,979	1,314,979	(50,000)
Utility Users' Tax	37,172,922	37,572,922	400,000
Occupancy Tax	7,892,629	7,442,629	(450,000)
Interest Income	3,121,000	4,121,000	1,000,000
Charges for Services	9,540,314	9,340,314	(200,000)
Total	\$120,512,833	\$118,112,833	(\$2,400,000)

The other major concern is the projected increase in the City's pension costs. As reported by CalPERS on January 22, 2009, CalPERS suffered significant market losses of nearly 25% or \$59 billion of their investment portfolio bringing it to a current value of \$180 billion. CalPERS has notified cities that employers' pension rates would be adversely impacted due primarily to the investment losses. The pension costs to the City is projected to increase by \$4 million beginning with the 2011-12 fiscal year and increased by approximately \$1.3 annually over the next four years.

It should be pointed out that when the investment markets were doing well, CalPERS rates benefitted. From 1997 through 2001, the City of Torrance's miscellaneous employees (non-safety employees) CalPERS rate was zero. The CalPERS rates generally have been manageable with respect to budget forecasting; however, due to the unprecedented market conditions, CalPERS efforts to stabilize rates are falling short. The following is a schedule showing the increase CalPERS rates and its financial impact to the City.

PERS Rates	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Police	40.4%	38.4%	37.9%	41.3%	41.7%	42.1%
Fire	34.0%	33.8%	33.3%	37.3%	37.8%	38.3%
Misc	10.7%	10.3%	10.2%	12.6%	13.0%	13.4%
Cost Inc.		-\$167,662	\$199,954	\$4,417,507	\$5,811,898	\$7,233,268
Increase over prior year				\$4,217,533	\$1,394,391	\$1,421,370
Revenue Adjustment	-\$2,400,000	-\$3,000,000	-\$3,000,000	-\$3,000,000	-\$3,000,000	-\$3,000,000
Change in Budget		-\$2,832,338	-\$3,199,954	-\$7,417,507	-\$8,811,898	-\$10,233,268
2% Reduction Scenario	\$2,400,000					
4% Reduction Scenario	\$4,900,000					

The 2009-10 and 2010-11 fiscal years reflect a shortfall of \$2 to \$3 million or about 1.2% to 1.8% of the General Fund but more importantly, is the task to resolve the imbalance beginning in the 2011-12 fiscal year. The City Manager, for several months now has been evaluating all personnel requisitions and appointments as well as deferring expenditures where feasible. The plan is to strategically fill those positions that enhance public service and/or are cost neutral.

The City Manager's proposed budget for the 2009-10 and 2010-11 fiscal years is due to the Council in May and work has already begun. As part of the balancing strategy for the next two-year budget cycle as well as for the 2011-12 fiscal year, the City Manager has requested departments to provide budget reduction scenarios in the amount of 2% and 4%. Departments have not only been asked to do more with less but to explore operation efficiencies and eliminate duplication of efforts between departments. It is envisioned that the proposed 2009-11 two-year budget will recommend that some of the department reductions be implemented soon after July 1, while others phased in over the next several years.

In addition and as part of the two-year budget process, a City wide fee study is being performed. The last time a City wide fee study was conducted was in the 2003-04 fiscal year. The fee study will aid the City in developing an appropriate pricing structure based on the cost to provide the service and the fee must be competitive.

2007-08 General Fund Carryover

In the First Quarter Finance & Governmental Operations Committee meeting, staff reported that the amount remaining to be allocated of general fund carryover was \$6,026,501. These funds, which are one-time in nature, are generally used to fund financial reserves, capital equipment needs and infrastructure projects. At this time given the economic climate and the likelihood of

Federal and State stimulus packages that would require matching funds, staff is recommending the following allocation:

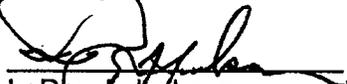
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Respectfully submitted,



Eric E. Tsao
Finance Director

CONCUR:



LeRoy J. Jackson
City Manager

**CITY OF TORRANCE
INTEROFFICE COMMUNICATION**

DATE: 1/26/09

TO: Honorable Chair and Members of the
Finance & Governmental Operations Committee

FR: Eric E. Tsao, Finance Director

RE: Follow-up to Councilman Numark's Questions for the 1st Quarter 2008-09
Update

- 1. *Can you please explain the definition of triple flip for the sales tax and property tax?***

As part of the 2004 State budget package, the Legislature adopted a mechanism to fund the State's economic recovery bond program with ¼ cent of sales tax. This mechanism called "triple flip" reduced the local allocation (city and county portion) of the State Sales Tax by ¼ cent, which was then pledged to repay the economic recovery bonds. Cities and counties are then backfilled with property tax revenues until the bonds are repaid.

Also, as part of the 2004 package, the Legislature adopted a swap of Vehicle License Fee (VLF) for a new allocation of property tax revenues to cities and counties. This legislation included: 1) a permanent reduction of the VLF from a rate of 2% to 0.65%; 2) elimination of the \$4.4 billion VLF backfill from the State General Fund; and 3) replacement for lost VLF with property taxes.

- 2. *On page 2 of the report, it appears that the revenue items projected are for the entirety of the fiscal year. Is that correct? If so, then the total numbers are less than the budgeted numbers in the budget summary sheet, which showed budgeted sales tax revenue at \$43.4 million and property tax revenue at \$39.5 million.***

http://www.torrnet.com/Documents/2007-09_2ndYr_BudgetAtAGlance.pdf

In any event, if they are year-end projected numbers, then what are the budgeted year to date numbers by revenue item, and what are the actual year to date numbers by revenue item? If they are year to date numbers, then why does the year to date figures replicate the budgeted year-end figures for utility users' tax and sales tax?

You are correct; the chart on page two represents selected general fund annual budgeted revenues which are projected to have a material variance at fiscal year end. Sales tax, as presented in the "Budget at a Glance"

document, combines the two different sales tax revenues, Sales Tax (3/4 cent), and the Triple Flip (1/4 cent). The \$32.6 million listed on page 2 of the Committee item only reflects the Sales Tax (3/4 cent).

Please see the attached spreadsheet which shows Annual and Seasonal Budget as well as Actuals Received to Date.

3. On the same chart on page 2, what is the property tax transfer and what is the sales tax PSAF?

Real Property Transfer Tax revenues are generated from the transfer of ownership of real property. The rate for City of Torrance is \$1.10 per \$1,000 of property value, this amount is split \$0.55 per \$1,000 to Torrance and \$0.55 to Los Angeles County

Back in 1992, the voters of Los Angeles County approved Proposition 172, the Local Public Safety Protection and Improvement Act of 1993. Prop 172 provided a 1/2 cent sales tax dedicated to local public safety. The 1/2 cent sales tax is deposited into the Public Safety Augmentation Fund (PSAF). The amount received is allocated based on population.

4. What is the source of the projected CalPERS rate increase - is this what CalPERS told us they would be or is this our projection?

In October 2008, CalPERS provided rates for upcoming 2009-10 and 2010-11 (projection) fiscal years. As part of our budget process, the City engages an actuary to project PERS rates beyond what CalPERS provides.

5. I believe we may have a discussion in our committee, but I do not understand the chart on page 3. Do the percentages indicate the percentage of every employee's salary that the City will need to pay into CalPERS? Is there a positive cost increase in 2010-2011, even though rates go down, because salaries go up due to contracts? What is the "revenue adjustment" and why is it projected to be the same for 2009-2010 - 2013-2014?

Yes, the percentages are based on salaries. The PERS cost increase/decrease on the chart on page 3 is the difference between the latest PERS projection and the projection provided as part of the 2008-09 proposed budget in May 2008. Even though the new PERS projection rates reflect a decline in the 2010-11 fiscal year from 2009-10, the overall cost is slightly higher when compared to the May 2008 projection.

	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
"Latest" Projection			
Fire	34.00%	33.80%	33.30%
Police	40.40%	38.40%	37.90%
General	10.70%	10.30%	10.20%
"May" Projection			
Fire	34.00%	33.00%	32.10%
Police	40.40%	39.50%	38.70%
General	10.70%	10.30%	9.90%
Change			
Fire	0.00%	0.80%	1.20%
Police	0.00%	-1.10%	-0.80%
General	0.00%	0.00%	0.30%

* 1% costs (rounded) for Fire-\$175k, Police-\$275k, General-\$650k

The revenue adjustments are where staff projects revenues to exceed or fall below year end budget estimates. A more comprehensive forecast will be provided for the upcoming 2009-10 and 2010-11 two year budget in May 2009 which will incorporate not only the major revenues of the General Fund but all revenues for all funds as well as City expenditures and transfers.

6. ***What is the intended scope of the city-wide fee study? Does it include all departments, from business license fees to parks and recreation fees to water rates and airport hangar fees? Is it envisioned that this study will be done internally or through a consultant?***

The fee study is city-wide and includes all departments. The study is focusing on user fees. In addition to the fee study, staff will be reviewing water rates, sewer, and refuse rates as well as Parks & Recreation class fees and rental rates at the airport. A consultant is assisting staff in completing the fee study and it is envisioned a consultant would be brought on board to assist staff as it looks at rates for water, sewer, and refuse operations.

7. ***This may be covered in the committee hearing; however, I would like to know the reasoning behind the carryover allocation - in particular, nearly tripling the total amount in the balancing strategies item and increasing Prop A exchanges by 50%. Is the relatively large amount in the capital projects area related to the projected need for matching funds from the federal government? Are there lists of capital projects that this amount was designed to address?***

Given the economic climate, the City Manager placed a priority on supplementing reserves. The Reserve for Balancing Strategies was

established to aid the City in balancing the budget over time in difficult budget times.

The other area where there is a significant allocation is capital projects. The recommended allocation is based on the following reasons: 1) Funding of the Capital program, which includes both equipment and infrastructure projects, comes primarily from year end carryover; and 2) Ability to provide matching funds for State and Federal Stimulus Projects.

The additional allocation for Proposition A would allow the City to seek additional swaps with other cities. Some cities would rather trade their Proposition A funds, which are restricted for transit related uses, for unrestricted funds at an exchange rate as low as \$0.65 on the dollar. At \$0.65 cents on the dollar, the \$1.5 million set aside could be exchanged for \$2.3 million in Prop A funds. These Prop A funds would then be given to Torrance Transit in exchange (dollar for dollar) for Transit Prop C funds which could be available for roadway and street repair that are Transit related.



Eric E. Tsao
Finance Director

Tax Revenues as of December 31, 2008

	Annual Budget	Seasonal Budget 2008-09	Actuals 12/31/2008	% of Annual	% of Seasonal	Yr over Yr % change in actuals	Actuals 2007-2008	% of Y/E Actual 2007-2008	06/30/2008 Actuals	Projected Inc/Dec (adjusted)
Tax Revenues:										
Property Taxes	\$28,154,100	\$12,193,958	13,573,702	48.2%	111.3%	7.3%	\$12,651,617	47.4%	\$ 26,695,877	\$ 400,000
VLF Swap	10,750,000	5,375,000	5,478,617	51.0%	100.0%	5.4%	5,197,804	-	10,395,607	*
Real Prop. Transfer Tax	600,000	306,000	263,254	43.9%	86.0%	-34.0%	398,877	65.0%	613,292	(200,000)
Sales and Use Taxes	32,666,889	16,692,780	15,588,566	47.7%	93.4%	-1.3%	15,793,332	50.1%	31,545,026	(3,300,000)
Sales Tax Flip	10,315,000	5,157,500	4,981,929	48.3%	100.0%	-12.1%	5,667,103	-	11,334,206	*
Sales Tax PSAF	1,364,979	682,491	672,478	49.3%	100.0%	-3.8%	699,113	51.2%	1,366,229	(50,000)
Utility Users Tax	37,172,922	17,809,753	18,609,222	50.1%	104.5%	5.5%	17,643,503	49.3%	35,795,148	400,000
Business License Tax	7,832,000	403,600	386,577	4.9%	95.8%	20.2%	321,595	4.0%	7,941,785	-
Franchise Tax	4,708,580	468,672	995,375	21.1%	212.4%	12.6%	883,706	16.3%	5,418,353	-
Occupancy Tax	7,892,629	4,109,254	3,971,858	50.3%	96.7%	-3.7%	4,126,263	52.3%	7,890,690	(450,000)
Other Taxes	935,130	460,974	407,947	43.6%	88.5%	-14.0%	474,238	35.8%	1,325,153	-
Totals	\$142,392,229	\$63,659,982	\$64,929,525	45.6%	102.0%	1.7%	\$63,857,151	53.9%	168,679,800	(\$3,200,000)
In Lieu & Transfer Ins	\$14,172,170	\$7,438,622	\$7,868,151	55.5%	105.8%	7.2%	\$7,341,764	54.4%	13,492,241	-
Interest Income	3,121,000	1,560,508	2,065,361	66.2%	132.4%	3.8%	1,990,300	41.5%	4,797,476	1,000,000
Charges for Svc/Misc	9,540,314	4,372,283	3,774,626	39.6%	86.3%	-11.1%	4,243,620	42.1%	10,068,717	(200,000)
Totals	\$169,225,713	\$77,031,395	\$78,637,663	46.5%	102.1%	1.6%	\$77,432,835	47.0%	168,679,800	(\$2,400,000)

* Flip amounts were received in January

UUT Components as of December 31, 2008

	Annual Budget	Seasonal Budget 2008-09	Actuals 12/31/2008	% of Annual Seasonal	Yr over Yr % change in actuals	Actuals 2007-2008	% of Y/E Actual 2007-2008	06/30/2008 Actuals	Projected Inc/Dec
Utility Users' Tax:									
Electricity	\$16,042,908	\$7,963,751	\$8,197,975	51.1%	4.4%	\$7,855,869	52.4%	\$ 14,998,405	\$ -
Gas:									
Refineries	6,052,151	2,757,120	3,187,995	52.7%	8.5%	2,938,191	46.8%	6,278,059	-
Other	3,239,554	1,247,375	1,391,729	43.0%	18.3%	1,176,428	37.3%	3,157,036	-
Water	1,639,325	819,671	844,857	51.5%	1.3%	834,297	56.4%	1,479,066	-
Cable	1,662,702	841,352	827,680	49.2%	0.0%	827,372	50.7%	1,630,727	-
Telecom/Cellular	8,511,043	4,180,484	4,156,870	48.8%	3.7%	4,008,641	48.6%	8,246,778	-
Miscellaneous	5,239		2,117	40.4%	-21.7%	2,703	53.2%	5,077	-
Totals	\$37,172,922	\$17,809,753	\$18,609,223	50.1%	5.5%	\$17,643,501	49.3%	\$ 35,795,148	\$0

UUT ck figure